

# Accountancy

MAY 1953

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## Professional Notes

### Queen Mary

THE LAMENTED DEATH OF HER MAJESTY QUEEN MARY REMOVES FROM US, AFTER a lifetime of service, one who held the respect, admiration and affection of us all. Queen Mary was a sterling and shining example to her peoples—an example of steadfastness, unselfishness, dignity and devotion to duty. Through personal vicissitudes and disasters, she upheld without faltering the true spirit of Queenship. Through the changing social customs and economic fortunes of the nation, she continued to give inspiration and courage to her own family and to her peoples alike. The deep sympathy of all goes out to Queen Elizabeth in her great loss.

The following humble address, under the common seal of the Society, has

been submitted by the Society of Incorporated Accountants to The Queen's Most Excellent Majesty:

### MOST GRACIOUS SOVEREIGN

The President, Vice-President and Council of the Society of Incorporated Accountants and Auditors, on behalf of all members of the Society with humble duty desire to convey to Your Majesty their profound grief and sympathy in the great sorrow which Your Majesty has sustained by the death of Her Majesty Queen Mary.

They respectfully desire to record the deep affection in which Her Majesty Queen Mary was universally held and to pay grateful tribute to her devoted and unselfish service to all peoples of Your Majesty's realms.

### Britain's International Accounts

There was a swing—in the right direction—of almost £600 million in our international trading account between 1951 and 1952. In 1951, we were debtors on current account in the sum of £402 million. Last year, we were creditors for £170 million. These balances are made up thus:

	£ million	
	1951	1952
Payments:		
Visible imports	3,496	2,927
Invisible imports	784	827
	4,280	3,754
Receipts:		
Visible exports	2,748	2,836
Invisible exports	1,130	1,088
	3,878	3,924
Excess of payments over receipts	402	
Excess of receipts over payments		170

In 1951 we received only £4 million of defence support aid but in 1952 a net sum of £121 million. Bringing this aid into account, our credit balance was £291 last year, compared with a debit balance of £398 in 1951.

The most remarkable feature of last year's recovery is the improvement in our account with the dollar area. In 1951, this account showed an adverse balance of £426 million; which, in 1952, had been reduced to one of £162 million.

It is abundantly clear, despite the improvement, that a great effort is needed to ensure in 1953 an overall balance, sufficiently favourable to enable us to meet all the claims on us for investment abroad—running down of sterling balances, essential industrial investment overseas and

provision of funds for the development of the Commonwealth—and to ensure no inroads upon our reserves of gold and dollars. We must also aim at securing at least a balance with the dollar area. These objectives will be the more difficult if the terms of trade do not continue the favourable movement which was so characteristic of our recovery in international trade last year.

### Promoting Productivity

Future activities of the British Productivity Council, as successor to the United Kingdom section of the Anglo-American Council on Productivity, were outlined at a recent conference by Sir Norman Kipping. He said that efficiency or productivity was of direct concern to 14 million people employed in British industries and distribution.

The Council had formed a circuit scheme, under which firms entering would be grouped in circuits of ten. Each firm would undertake to form a team which it would send once a month to visit another in the same circuit, and to receive a visiting team once a month. A team would comprise six members, two drawn from management, two from technical level, and two from the workshop. Circuits would be formed with an eye to size of firms and to distances to be travelled, and each firm could choose whether or not to enter a circuit with others in the same industry.

As a further measure to help people in industry to meet and to exchange ideas, it was hoped to form local Productivity Committees in 105 towns throughout the country. There would thus be created in the smaller centres facilities which now existed only in the big towns. The District Committees attached to the Regional Boards for Industry were being asked to take the initiative in calling meetings to discuss the proposal, but the productivity committees when formed would have no connection with the Government's Regional Board machinery. The Council would be able to help the committees by supplying printed material, by sending lecturers when requested, and by preparing specialist educational films. It was hoped that the cost, including honoraria to the secretaries of the local committees,

would be met, in part, from the Conditional Aid Fund (a fund of about £9 million, set up with the sterling counterpart of dollars provided by the Mutual Security Agency of U.S.A.).

To enlist the interest of the general public, a series of four-minute films was being prepared for television, and would be available on loan to the district productivity committees for showing at meetings.

### Reform of Road Passenger Transport

Changes in the law of road passenger transport are recommended in a memorandum from the *Association of British Chambers of Commerce* to the Committee on Road Passenger Vehicle Licensing. In a covering letter, the Association states that denationalisation of road passenger services outside London would largely meet the complaints of industry and commerce, as it would redress the balance between road and rail competition.

It is suggested that in remote rural areas, especially where railway lines have been closed as an economy measure, licensing regulations should be relaxed to allow garage proprietors and others to run local bus services on a flexible basis.

The quasi-judicial functions of the Minister of Transport in deciding appeals against decisions of licensing authorities should, in the view of the Association, be transferred to the Transport Tribunal. It is pointed out that the Tribunal has dignity and standing, and its impartiality commands growing confidence. But the Minister's position is made difficult by his responsibilities for the British Transport Commission, which—either directly or through one of the undertakings in which it has an interest—appears as an objector to almost every application.

The memorandum suggests that the interests of the travelling public and the advantages of cheaper travel deserve closer attention; that road fleet operators should always be allowed some increase in the number of their vehicles if they can show that they carried substantial numbers of passengers in the past year; and that where an objection to a licence application is based on the existence of adequate services, the onus of proof should be upon the objector.

### Taxation of Interest on P.O. Savings Accounts

In his speech at the annual general meeting of the *Institute of Taxation*, on April 21, Mr. Stanley A. Spofforth, F.C.A., F.S.A.A., referred to the "great outcry" about the non-disclosure of Post Office Savings Bank and other untaxed interest, exceeding £15 per annum. The national Press, he said, had castigated the Board of Inland Revenue—some sections of it had blamed the previous Government for enacting Section 27 of the Finance Act, 1951, and all seemed to agree that the great hunt has had a serious effect upon national savings. But no one seemed to have blamed the Post Office Savings Bank! Mr. Spofforth continued:

If a company pays a dividend and deducts income tax, if a trustee distributes income from a trust, if a mortgagor pays mortgage interest, if a leaseholder pays ground rent, or an employer pays salaries and wages, he issues a certificate. The joint stock banks call for bank deposit books at least every 12 months and the building societies are not less assiduous. But the Post Office Savings Bank does not call for books for 10, 20, or 30 years. When a depositor asks for his book to be made up they put in a block figure for interest for (say) the last 10 years, and to obtain annual interest figures is a matter for further reference or a professional calculation. How easy for the Post Office Savings Bank to do what everyone else has to do—how easy to put in a label. "This interest has to be entered in your income tax return." Many "delinquent" taxpayers did not know they had any interest to return or that their wife had any such interest, and many of those who did know thought it was free of income tax because "it came from the Government." The difference between interest on National Savings Certificates, building society interest, interest on Government securities paid by the Post Office Savings Bank, similar interest paid by the Bank of England, if more than £5—but different treatment if £5 or less—interest on 3½ per cent. War Stock by whomsoever paid, is all very confusing to the average layman.

### The Municipal Treasurers' New President

The Institute of Municipal Treasurers and Accountants has elected as its President for 1953-54, Mr. A. H. Marshall, B.Sc.(ECON.), PH.D., F.S.A.A., F.I.M.T.A., City Treasurer of Coventry.

Dr. Marshall took first place in the Institute of Municipal Treasurers Final Examination in 1930, and four years later was awarded Honours in the Final Examination of the Society of Incorporated Accountants. He was formerly a member of the Incorporated Accountants' Research Committee. He has written books and articles on local government finance, and in June 1952, submitted a paper to the Sixth International Congress on Accounting, on "The Accountant in Practice and in Public Service."

In 1948 he visited the Sudan to advise the Sudanese Government on local government in that country.

He is chairman of the executive committee of the Institute of Public Administration.

### Incorporated Accountants' Course September 1953

The Society of Incorporated Accountants will hold a course in taxation subjects in Cambridge, from Thursday evening, September 17, to Tuesday morning, September 22. Permission has kindly been given for the course to be held both in King's College and in Gonville and Caius College, thus enabling a greater number of members to be accommodated. All places have, however, now been allocated, and no further applications can be received. The following papers and discussions have been arranged:

"What the Inland Revenue expects of the Accountancy Profession." By Sir Eric Bamford, K.C.B., K.B.E., C.M.G.

"The Organisation of an Accountant's Office in the U.S.A." By Mr. J. W. Hope, Immediate Past-President of the American Institute of Accountants.

"The Structure of Companies and its effects on Taxation." By Mr. H. Major Allen, Barrister-at-Law, and Mr. W. G. A. Russell, F.S.A.A.

"The Practical Aspects of Saving Estate Duty." By Mr. Geoffrey Tribe, Barrister-at-Law.

"Statutory and Non-Statutory Reliefs." By Mr. J. R. Paramour, F.C.A., F.S.A.A.

"Appellate Procedure." By Mr. A. Stuart Allen, F.S.A.A., Immediate Past-President of the Society, Mr. F. L. Barford, President of the Association of Her Majesty's Inspectors of Taxes, and Mr. F. Heyworth Talbot, Q.C.

"The Nature and Purpose of Direct Taxation." By Professor F. Sewell Bray, F.C.A., F.S.A.A.

"The Finance Act, 1953." By Mr. D. O. Bailey, A.S.A.A.

"The Taxation Provisions applicable to Groups of Companies." By Mr. Frank Bower, C.B.E.

### The National Accounts

The tables in the White Paper *Preliminary Estimates of National Income and Expenditure* (Command 8803) enable an income and expenditure account to be drawn up as follows:

INCOME (£ million)			
	1951	1952	
Wages and salaries .. ..	7,790	8,335	
Professional earnings .. ..	214	214	
Profits of sole traders and partnerships and farmers' incomes .. ..	1,277	1,238	
Profits of companies .. ..	2,506	2,327	
Miscellaneous* .. ..	1,650	1,534	
	13,437	13,648	
Less stock appreciation .. ..	900	—	
Gross national income .. ..	12,537	13,648	

\* Armed Forces pay, profits of public bodies, employers' National Insurance contributions, rents and net income from abroad.

EXPENDITURE (£ million)			
	1951	1952	
Personal consumption .. ..	9,932	10,460	
Current expenditure of public authorities .. ..	2,477	2,969	
Capital formation:			
Fixed assets .. ..	1,862	2,000	
Stocks .. ..	1,365	100	
	3,227	1,900	
Less stock appreciation .. ..	900	—	
	2,327	1,900	
Less goods and services from abroad not currently paid for .. ..	395		
Plus goods and services sent abroad not currently paid for .. ..		189	
Gross national expenditure (at market prices) .. ..	14,341	15,518	
Less indirect taxes (net of subsidies) .. ..	1,804	1,870	
Gross national product .. ..	12,537	13,648	

This account is, however, misleading unless it is borne in mind that the figures are in value terms. Prices as a whole were some 7 per cent. higher in 1952 than in 1951, for although there was relative stability in the price level last year, there had been a very steep advance during 1951.

The "overall" picture is better seen by a table given in the *Economic Survey for 1953* (Command 8800) published at the beginning of last month. Slightly adapted, this is as follows:

### CHANGES IN REAL SUPPLY AND DEMAND BETWEEN 1951 AND 1952 (at 1951 prices)

Supply		£ million
Gross domestic product .. ..	..	— 100
Imports .. ..	..	— 230
		— 330
Demand		
Public authorities (including defence) +325		
Exports .. ..	..	— 60
Gross fixed investment .. ..	..	— 35
Personal consumption .. ..	..	— 110
Investment in stocks and works in progress .. ..	..	— 450
		— 330

This table shows that in real terms, there was a fall in the national product last year and, because of the favourable balance of payments, an even larger fall in the volume of goods and services available for use at home. However, despite a much larger demand by government on the available goods and services, the situation was saved, firstly, because businesses did not, as in the previous year, build up their stocks and work in progress (so that the volume of goods and services so absorbed was £450 million less than in 1951) and, secondly, because individuals consumed significantly less. The counterpart of the first of these two factors was that many businesses increased their liquid funds, even though there were large repayments of bank advances.

### New President of the American Institute

The Council of the American Institute of Accountants has nominated Mr. Arthur B. Foye as President for 1953-54. Mr. Foye is senior partner in Messrs. Haskins & Sells, New York City. He is a member of the Institute's executive committee and chairman of the foreign affairs committee. He is President of the Accountants' Club of America and of the Far-East American Council of Commerce and Industry, and Vice-President of the American Asiatic Association.

### Committee on the Taxation Treatment of Provisions for Retirement

The Inland Revenue announces that the drafting of the report of the Millard Tucker Committee on the Taxation Treatment of Provisions for Retirement is in its closing stages. The Committee are engaged in a final review of the report, but it is not yet possible to say when it will be presented to the Chancellor of the Exchequer.



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## *A Step in the Right Direction*

MR. BUTLER, WITH A BECOMING modesty, called his Budget "a step in the right direction," and this it certainly is. What was desperately needed at this time was some invigoration of the economy and this in a measure the Chancellor has provided. He has shown that the Government is concerned to promote business enterprise, and even if his plans do not go very far in promoting it, they are an earnest that the direction in which this Budget is pointed—towards a reduction in the heavy weight of business taxation—is the direction which will be followed subsequently.

The lightening of the tax load this year could not be really pronounced on the figures of estimated expenditure and revenue which Mr. Butler presented in his Budget statement (see the accounts reproduced on pages 142-3 of this issue of ACCOUNTANCY). These estimates showed that, on the basis of existing taxation the Chancellor would have an above-the-line surplus of £428 million (by the "alternative classification.") Since his estimates showed that he would have a below-the-line deficit of £699 million—that line is drawn approximately, but only approximately, so that revenue items above it are divided from capital items below—he would have had to increase taxation drastically if he had sought a balance or a surplus on the Budget as a whole. Fortunately, his desire to help industry and trade was not thwarted by any such Gladstonian finance. It is now well recognised that if the Government is a net borrower, especially if it is a net borrower for capital purposes, then no harm but only good is done all the time the non-Government sector of the economy is

a net lender, that is, all the time the general public and businesses are saving more than they are investing in capital goods. On the evidence of last year—when, as we recount in a Professional Note on page 139—businesses were saving large sums not needed for the further building up of stocks—Mr. Butler found that the non-Government sector was likely to be a large net lender in 1953-54. He could, therefore, safely budget for an overall deficit. He put the amount of this overall deficit at £440 million, which would require an above-the-line surplus of £259 million. Since, on the basis of existing taxes, the above-the-line surplus would have been £428 million, he concluded that he could remit £169 million in taxation this year.

In assuming that the Government could borrow from the non-Government sector of the economy such a large sum of unused savings, Mr. Butler was counting on both a quite high rate of savings this year and also on there being insufficient use of savings in the provision of capital goods (that is, in "investment") for industry, so that a lendable balance would result in the non-Government sector. His expectations about the level of savings would have been on a firmer foundation if the Budget itself contained some encouragement to saving, but it held no such encouragement. If, nevertheless, the lendable balance which he anticipated in the non-Government sector does indeed occur, it will probably be because investment by business will be kept within fairly modest bounds. This may be all very well for the successful outcome of Mr. Butler's budgeting, but it is a most unhappy augury for British industry and, at

one remove, for the British nation as a whole. For a restriction of business investment means fewer capital goods—less re-equipment and modernisation of machinery, a slower replacement of plant, fewer new factory buildings—than are necessary for the development of our industry and the growth of our national product.

The signs are unmistakable that industrialists have been slow to invest in capital goods for their businesses. Mr. Butler did, indeed, recognise these signs and saw the significance of too low a level of investment. He even took a number of steps—of which the reduction of the standard rate of income tax from 9s. 6d. to 9s. in the pound, the cessation of the Excess Profits Levy at the end of this year, and the reintroduction of the initial allowances, were the most important—to stimulate new investment. But the stimulus is not a very potent one. Only the initial allowances have a direct effect upon investment and they are fixed at a relatively low rate. It is safe to say that there will not be a really pronounced expansion of investment in British industry this year—not, that is, an expansion of the order of magnitude which our economic future demands. The reason there will not be such an expansion is that Mr. Butler could not afford to take measures which would allow it to occur. And the reason he could not afford to take these measures is that, to take them would have meant his overall deficit could not have been covered by non-Government savings: a situation which would have set off once again the inflation from which we painfully saved ourselves as a result of his Budget last year.

Only in one other eventuality could Mr. Butler have given some more far-reaching encouragement to industrial investment. He could have done so if he had made cuts in Government expenditure to reduce his borrowings from the non-Government sector. He could then have tolerated—he could have encouraged—larger investment by industry. Again, he could, at the same time, have taken a further step "in the right direction," by still further reducing taxation, especially business taxation. He decided against these economies in Government expenditure and it is largely our industrial future which has to pay the price.



# Shares of No Par Value

*The Society of Incorporated Accountants has sent the following memorandum to the Board of Trade Committee on Shares of No Par Value, under the chairmanship of Mr. Montague L. Gedge, Q.C.*

THE COUNCIL OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS, by its Company Law Committee, has considered the terms of reference to the Committee on Shares of No Par Value appointed by the President of the Board of Trade under the Chairmanship of Mr. Montagu L. Gedge, Q.C., and in response to the invitation of January 23, 1953, would like to express the following views:

1. The no par value system is understood to mean the issue by a corporate body of capital stock or shares, having no specified par or nominal value, but to which there may attach, under articles of incorporation, or by virtue of determinations by stockholders, shareholders or directors, a specified amount as legal or stated value. No par value preferred stock usually has a definite liquidation value which must be deducted from total paid-in capital to determine the book value of no par value common stock.\*

The Society has no direct experience of the operation of the no par value system in other countries, but it has had advice from representatives of accounting opinion in the United States of America, part of which is dealt with under 3. below.

It is understood that the first no-par stock authorisation in the United States of America "came with enactment of a law by New York in 1912. A study of corporation laws of the states and some other governmental components of the United States made in 1946 reveals that only Oklahoma, the District of Columbia, and Puerto Rico do not now provide for no-par stock."

2. The Society is without statistical evidence of the extent to which shares of no par value are used in other countries, and it is unable to say whether their use is more common for any particular kind of company, or in certain fields. Nevertheless, a sample of the published accounts of American corporations discloses the follow-

ing as having shares or stock of no par value in issue:

- i. *Air Reduction Company Incorporated*, New York.
- ii. *Allied Chemical and Dye Corporation*, New York.
- iii. *Inland Steel Company*, Chicago.
- iv. *International Harvester Company*, Chicago.
- v. *American Radiator and Standard Sanitary Corporation*, New York.
- vi. *Bethlehem Steel Corporation* (Incorporated in the State of Delaware).
- vii. *Celanese Corporation of America*, New York.
- viii. *General Electric Company*, New York.

It will be apparent that some of these are well-known corporations controlling substantial resources.

An American correspondent has advised the Society that: "As of June 30, 1938, 1,710 common stock issues and 749 preferred issues of stocks registered on national security exchanges were without par value. Respectively these were 49 per cent. and 33 per cent. of registrations."

3. A well-known American accountant, residing in Chicago, has made the following observations on the operation of the no par value system in the United States of America:

During the last few years the distinctions between par and no-par stock and their relative advantages and disadvantages have become of slight importance primarily because—

Accountants (and statutes of licensing states) generally require that contributions of stockholders be held intact and in effect be so reported in corporate financial statements. This means "paid-in capital," "stockholders' contributions" or simply "capital" has come to be regarded as a unit rather than something that might be split in two ways, and that the old "trust fund" theory of management's relations with investors has in a sense been revived.

The notion that dividends may be

paid from stockholders' contributions during the early years of a corporation's existence or at any other time has fallen into disrepute.

The issuance of additional shares of a given class in exchange for values not less than the book value and not less than the market price of existing shares has become a well-accepted rule.

Under the laws of most states splits or reductions of par value accompanied by a proportionate increase in authorised shares are now rather easily accomplished. This device permits the sale or trading of additional shares at a lower price—formerly a chief advantage claimed for no-par shares.

In short, the general tightening of the rules, formal and informal, surrounding paid-in capital and accumulated earnings have largely eliminated the advantages once claimed for no-par shares. Par value is quite generally regarded as promoting better management responsibility.†

Another American correspondent has made the following comments:

... in 1948, one text-book on corporation finance reported that several recent influences had "slowed up, perhaps halted, the trend toward no-par stock". Reasons cited by the author were:

- (a) Some statutes and regulatory agencies are hostile to this form of share. For example, the Federal Public Utility Holding Company Act of 1935 requires new stock of public utility holding companies to have a par value unless the SEC makes a special exception. Railroad stock must generally have a par value. Banking corporations are strongly discouraged from having no-par shares.
- (b) Tax laws have frequently been such as to discriminate against the no-par share. If a tax is levied on

\* See *A Dictionary for Accountants* by Eric L. Kohler, page 283. (New York: Prentice-Hall, Inc., 1952.)

† Quoted from a letter to Professor F. Sewell Bray, dated January 30, 1953.

the issuance of shares a \$10 par-value stock will probably pay 10 per cent. as large a tax as a \$100 stock. The same laws, however, often treat all no-par shares as though they had a par value of \$100 (while many no-par shares are the counterpart of low-par shares). Similarly, transfer taxes and franchise taxes may be discriminatory against no-par shares.

This trend away from no-par stock has been accompanied, according to another recent author, by a tendency to issue low-par shares on an increasing scale.

4. The following advantages have been claimed for shares of no par value :

i. It has been suggested that the separate statement of large reserves on a company balance sheet could carry with it the implication that such reserves do not attach to the equity share interests, but that when shares of no par value are in issue this implication is less strong.

ii. That they obviate the need for capitalisations of reserves by way of bonus issues.

iii. That they put dividends in a proper light. The nominal percentage rate of dividend on a share to which a nominal value has been given may convey a wrong impression of the return earned on the capital employed. It should be remarked, however, that many companies draw attention to this disparity in their annual reports.

iv. That they obviate the kind of implications referred to in the following quotation taken from the Report of the Committee on Company Law Amendment (Cmd. 6659, June 1945) : "... It is argued that to attach a nominal value to a share is misleading as, except perhaps immediately after the formation of the company, and not always then, the nominal value bears no relation to the real value of the share ; nevertheless, the ignorant are apt to think that a share is cheap if bought at less than, and dear if bought at more than, its nominal value." (Paragraph 17.)

v. That they can be split or consolidated with freedom, and odd multiples are avoided. It is said that the ability to split can make for greater marketability when shares have become expensive. This advantage may be contrasted with the statement made in the penultimate paragraph of the letter quoted at 3.

vi. That they obviate the existing procedure for the issue of shares at a

discount. It has been argued that companies whose ordinary shares stand at a discount in the market should be allowed to convert their ordinary shares to a no par value basis with the object of securing fresh capital without imposing on existing shareholders the disadvantage of either creating a prior charge or proceeding by way of a permissive reduction of capital.

The following disadvantages largely based on American experience have been associated with shares of no par value. They would not necessarily bear the same legal interpretation in this country.

i. A valuation of assets to be exchanged for shares of no par value is not subject to the same safeguards as would obtain in the case of an exchange of assets for an issue of shares with a par value. An American writer has criticised this feature in the following terms :

"Promoters issuing par-value stock are likely to be careful to see that the assets purchased by the corporation have been independently appraised ; if less than the par value has been received, the stockholder may be held by the company's creditors for the deficiency in his contribution. There is no such safeguard attaching to no-par stock. All no-par stock can be issued as fully paid and its lack of par value prevents any future action being taken against stockholders whose contributions appear on the company's balance sheet at inflated values. Cook, in his *Principles of Corporation Law*, characterises the idea of no-par stock as 'a skilfully devised scheme to issue a maximum of watered stock at a minimum risk' (to insiders)."

ii. By means of the device of stated values surplus can be created out of stock or share sales from which dividends can be paid. This specific disadvantage is hardly relevant in this country; nevertheless, it does point to the circumstance that without due safeguards some portion of the amount received, or deemed to be received, by a company on the issue of no par value shares could be credited to a reserve which is subsequently made available for distribution to shareholders.

In this context the existing provisions relating to capital reserves in the Companies Act, 1948, in so far as they relate to reserves which are regarded by the directors as not being free for distribution through the profit and loss account, are open to some doubt.

It is possible that the directors could change their minds and constitutionally convert a reserve which they had previously regarded as capital into a revenue reserve. The American writer already referred to again quotes Cook as saying: "These no par value statutes are destroying the respectability of the corporate form of organisation. The abolition of real capital stock and the freedom as to dividends on no-par stock render it the instrument of concealment and fraud."

iii. It has been suggested that "the greatest danger inherent in no-par stock is the almost unlimited opportunity of manipulation by unscrupulous insiders." It seems that there is past American evidence to suggest that "underwriters have obtained an undue share of promotional profits through selling stock to the public at one price and turning over to the corporation much less than the formerly conventional 85 or 90 per cent. The flotation of par-value stock necessitates a full disclosure of promoters' profits, while the habitual practice in the case of no-par stocks is to record on the corporate books of account only the proceeds received by the corporation. Encouragement is thus given to larger commissions without the risk of public disapproval which would inevitably follow disclosure. Further, in many cases promoters, purchasing the stock of profitable companies from stockholders, or acting as agents for the principal stockholders, have 'sold out to the public' through the issue of non-voting no-par stock, in this way permitting the old official personnel to retain control, or to share it with the promoters through the issue to themselves of no-par 'management stock' having voting power but little if any book value. Use of no-par stock, thanks to the promoters, effectually beclouds the truth, especially with a none-too discerning investing public. . . . No-par stock . . . has made it possible for promoters boldly to sell stock purely on the basis of prospective earnings without the salutary corrective of inherent economic value which par-value stock much more nearly reflects. With competition still in existence, the underlying economic value of corporate assets is a necessary and desirable gravitational force affecting the market price of stocks. No-par stocks contribute to the unjustifiable inflation of offering prices. Par-value stocks, on the other hand, tend to

keep offering prices and subsequent prices down to the level to which all stocks return after periods of inflation." \*

- iv. It is said that stock bonuses to a company's official personnel may be carried to extremes where there is paid-in no-par stock and where no entry for this stock is made in the books of account. Thus, "a stock bonus not accompanied by book entries is a miniature 'split-up' and gives no notice to stockholders of their thinning equity in future earnings; it should be condemned without reserve. At least the paid-in value of each outstanding share should be charged against earnings for each share of bonus stock distributed . . . such procedure . . . serves as a corrective to an over-ambitious management." †
- v. It seems that in the United States of America, Federal and State Transfer Tax stamps on a sale of common stock (payable by sellers) are greater for stock of no par value than for par value stock. A specimen schedule is attached (Appendix A) showing the Federal and State Transfer Tax Stamps on the sale of common stock in New York. This may be a contributory reason for the decline in popularity of no-par value stock in the United States of America, referred to at 3.
- vi. It has been suggested that if shares of no par value were made permissive in this country it would require two types of presentation of published company accounts and that this would add to the confusion of shareholders. The Society is not inclined to make much of this point.
- vii. It is said that a capital duty in respect of no par value authorisations presents assessment complications.
- viii. It is sometimes urged that "splitting" is entered into in order to give the appearance of declaring smaller dividends. Contrariwise "consolidation" can give the appearance of increasing dividends.
- ix. It is said that shares of an original no par value issue can be dealt with at differing prices.
- x. It is also said that subsequent issues of shares of no-par value can be made at a price which includes a bonus element at the expense of existing

shareholders. This implication can remain even though the shares are protected by a "stated value." For example, "stated value of new stock issued is determined by dividing the stated capital resulting from the new issue by the number of shares issued; this will change if an additional block of shares of the same class is assigned a disproportionate amount of stated capital, the stated value of each old and new share then becoming an average." ‡

Since the preparation of the foregoing the Society has received a note of advantages and disadvantages from an American correspondent which is now included in this memorandum as Appendix B.

5. It seems to the Society that creditors are concerned to know that an issue of shares has created a capital fund which is not available for distribution. An investor is concerned with the number of shares ranking *pari passu* with his own, and he should have some rights over further issues of the same class. The general public as prospective investors should know the price at which shares are being issued and the extent to which the money or value deemed to be received by the company is to be applied as capital.

6. It is understood that in the United States of America the statutes of licensing states generally require that contributions of stockholders be held intact and in effect be so reported in corporate financial statements. For example, it is understood that in New York the whole of the consideration for no-par value shares is capitalised. It is also thought that in some cases the issue price of shares of no par value is treated as fixing the limitation of the shareholder's liability. The effectiveness of these types of check may be judged from the observations to which we have referred at 3. The balance sheets of American companies with shares of no par value in issue usually give the following information:

Common stock without par value.  
 Authorised No. of shares.  
 Issued and outstanding No. of shares \$.,  
 and by way of note—  
 Book value per share of n.p.v. common stock, e.g. 1953, \$.  
 Book value per share of n.p.v. common stock, e.g. 1952, \$.

Since the preparation of the foregoing the Society has received an additional note from an American correspondent which is now included in this memorandum as Appendix C.

7. The Society has no strong views on

‡ A Dictionary for Accountants. By Eric L. Kohler (New York: Prentice-Hall, Inc., 1952) page 403.

the desirability of permitting the no par value system in this country, but if it be thought that for one reason or another there are advantages in allowing it, then the Society would recommend that its use should be limited in the following ways, with consequent amendments to company law.

- i. The issue of shares of no par value should require the introduction of a capital fund. The Society does not think that this necessarily "brings with it the same complications which the no-par value share was designed to avoid."
- ii. Any distribution of this capital fund, except on a winding-up, should ordinarily be prohibited, but if a company desires to make a return from this fund to its shareholders then it should be allowed to proceed under the existing provisions relevant to a capital reduction. The nature of this capital fund would have much in common with that of the capital redemption reserve fund as now required on the redemption of preference shares out of profits.
- iii. Except in the case of bonus issues to existing shareholders (see ix below), no-par value shares should only be issued for cash or its equivalent in value at the time of the issue.
- iv. The shares of an original issue should all be issued at the same price. Equally the shares of a subsequent issue should all be issued at the same price.
- v. Subsequent issues should be made at a fair market price, as determined by the directors, but in no case should that price be less than the figure certified by the auditors of the company as being fair and reasonable at the proposed time of issue. All subsequent issues of shares should be offered, in the first instance, *pro rata* to existing no-par value shareholders.
- vi. The whole of the proceeds of a no par value issue either in the form of cash or its equivalent in value at the time of issue should be credited to a no-par value capital fund, this fund to be subject to the restrictions already referred to. The amount of this no-par value capital fund should be separately stated on any balance sheet issued subsequently, together with details of the number of shares both authorised, and issued and outstanding.
- vii. Shares of no par value should be issued as fully paid, and the issue price should fix the limitation of a shareholder's liability.
- viii. Conversion of an existing issue of

\* Quoted from the comment of an American writer, Mr. E. L. Kohler, in the *Accountants' Handbook*, 2nd Edition, page 917. (W. A. Paton, Editor. New York: Ronald Press Company, 1934.)

† Op. cit. page 917.



ordinary shares should be allowed at the book value of its equity on the terminal date of the annual accounts immediately preceding the conversion, subject to a permissive maximum deduction equivalent to the amount of profit retained in the financial year immediately preceding the conversion, provided always the profit and loss account was not in debit prior to this retention. The resulting amount to be capitalised as no par value capital fund.

- ix. The paid-in value of each outstanding no-par value share should be charged against either capital or revenue reserves (including any undistributed profit balance), in respect of the number of a subsequent bonus issue of no-par value shares made to existing no-par value shareholders. Bonus issues other than to existing shareholders should be prohibited.
- x. The Society is of the opinion that there is no good case for authorising the issue of preference shares of no-par value. Any such issue should be prohibited.
- xi. It has been represented to the Society that the right to issue shares of no par value should be limited to public companies applying for a quotation on a recognised Stock Exchange. A public issue of shares of no par value should be subject to the same prospectus disclosures as are required for par value shares, particularly in regard to underwriting commissions.
- xii. The constitution of a company with authorised no-par value shares should

be required to deal specifically with the following matters:

- (a) The definition of capital participation rights on a winding-up where other classes of shares are in issue.
- (b) The dividend rights where other classes of shares with participation rights are in issue.
- (c) The order of absorption of losses:
  - (1) against revenue reserves;
  - (2) against capital reserves;
  - (3) against the no par value capital fund.

## Appendix B

### Advantages:

1. It avoids stock discounts and hence eliminates any contingent liability of stockholders to creditors for purchase of stock below par.
2. Investors are placed on guard to determine the true worth of stock rather than blindly to assume it to be worth par.
- Since no-par shares do not carry a "price tag" buyers are not misled into thinking they are acquiring anything but a certain fractional interest in a corporation.
3. It does away with the dubious expedient of overvaluing assets received for stock in order to make it appear fully paid; this is frequently encountered with par value stock.

### Disadvantages:

1. Investors, regulatory bodies, and even directors have no "yardstick" for measuring the amount which should be paid for shares as they do for par value. The price must be fixed in regard to many considerations, such as appraised value of the assets, market value of shares now outstanding, earnings, prospects, etc. Actually while listed by some as disadvantages these factors may prove to be very advantageous.
2. Transfer fees, organisation fees, stock taxes, fees for operation in other states, etc., may be based on arbitrary valuation of the stock very much in excess of its fair value. (See further notes on this under item 3b).
3. It affords an opportunity to manipulate part of the proceeds of an issue so as to give the appearance of the existence of surplus or even earned surplus upon organisation.

## Appendix C

"While no-par stock is permitted in practically all of the states and has become accepted and respectable, occasional criticisms of it are still heard.

One criticism is that its use impairs the protection to creditors and the public by failure to require the corporation to hold assets in the way that par value stock does. Since the early 1800's the 'trust fund' doctrine has been widely held in this country. In the case of par value stock the contribution of stockholders up to the amount of par is sometimes thought of as a 'trust fund' for the protection of those who

deal with the corporations, i.e. net assets may not voluntarily be reduced below this amount. In the case of no-par stock many (at least twenty-eight) states permit the stockholders or directors to decide how much shall be credited to capital stock and how much to paid-in or capital surplus when no-par shares are issued. Since the paid-in surplus may be used for various purposes, including payment of dividends in many (thirty-six) states it does not have to be kept intact as does an amount credited to capital stock. Two or three states require that dividends from paid-in surplus be identified as originating from such source.

However, it should be noted that the theory of the 'trust fund' has not always been realised in American corporate practice, even with par value stock. Stock was frequently issued at the time of organisation in generous amounts for overvalued property and services. With no-par stock, property may be exchanged for stock at more nearly proper values since there is no temptation to avoid discount liability or to avoid sometimes illegal issuance at a discount. Whatever amount is credited to capital stock as a result of issuance of no-par shares does constitute a sort of 'trust fund.' It should also be noted that in the case of par value stock the amount of the 'trust fund' may not be kept intact. If losses or other developments reduced assets so that impairment resulted, it has often been possible to cure the impairment by writing down the capital stock account. This could be done by reducing par value, by reverse-splitting the stock (issuing one new share for several old ones) or by inducing shareholders to surrender part of their holdings for cancellation. There may be legal impediments to some of these actions, but in fact they have frequently been implemented. Creditors now rely less on the 'trust fund' and more on corporate earning power, integrity of the management, etc.

Another criticism is that no-par stock makes possible the dilution of shareholders' equities by sale of new stock at below what they paid or below book value. However, the rigidity of par value may harm rather than protect the stockholder. If par value exists and cannot be reduced the corporation may face a financial crisis. If added funds are needed and stock cannot be sold at par or above, sale may be precluded altogether. No-par stock meets this situation through its flexibility. Stockholders may be protected against dilution of their equities if they must give approval before additional stock may be sold or if they have pre-emptive rights.

In closing it should be noted that an effective offset to 'manipulation,' payment of dividends from what was essentially contributed capital and the like, is the great movement toward more adequate and complete accounting disclosure. With continually improving accounting and auditing standards and an expanding use of the services of professional accountants, a great deal more light is now shed on corporate transactions than was the case less than two decades ago.

Further, in the case of registered companies, the activities of the SEC have made for a great deal more disclosure of information of interest to present or prospective investors."

## Appendix A

### SPECIMEN FEDERAL AND STATE TRANSFER TAX STAMPS

#### ON SALE OF COMMON STOCK IN NEW YORK

(Payable by Sellers)

No. of Shares	Par Value	Selling at (a) Under \$20	Federal (b) Over \$20	Tax Stamps N.Y. State If selling at over \$10	Total P.V. N.P.V.
100	N.P.V.	(a) 5	\$	3	\$ 8
		(b) 6		4	10
100	\$100	(a) 5		3	8
		(b) 6		4	10
200	50	(a) 5		6	11
		(b) 6		8	14
400	25	(a) 5		12	17
		(b) 6		16	22
500	20	(a) 5		15	20
		(b) 6		20	26
1,000	10	(a) 5		30	35
		(b) 6		40	46
2,000	5	(a) 5		60	65
		(b) 6		80	86

# Comparative Government Accounting

By C. W. REID, B.SC.(ECON.), A.S.A.A.

FROM TIME TO TIME, MANY ACCOUNTANTS, in practice and industry as well as in Government service, must question whether the British system of governmental finance and accounting is all that it should be. Is it moving with the times? Does the system provide adequate protection and information for the public? But by what standards, commercial or otherwise, is it to be judged? How are these affairs handled in other countries?

Where is one to look for the answers to questions of this kind? There is a considerable international literature on "social accounting," which has been defined as the balance sheet of the nation's economic health. The whereabouts of much material on the subject, which tends towards statistical economics, will be found in the *Bibliography on Income and Wealth 1948-9*—edited by Miss Phyllis Deane and recently published by Bowes and Bowes of Cambridge. Systems of accounting in Government Departments in the country were surveyed by the Committee on the Form of Government Accounts, whose final report appeared in 1950 (Cmd. 7969). Its terms of reference instructed it to "assume the continuance of the system of Parliamentary accounting" and thus limited the field of inquiry. The United Nations Organisation is also endeavouring to provide some of the answers to our questions. In 1951, the Economic and Social Council of the United Nations requested the Secretary-General to "give consideration to basic principles for accounting and auditing, such as full disclosure, the managerial use of accounting, establishment of accountability, internal control and independent audit." As a result, there has just appeared a 90-page booklet, *Government Accounting and Budget Execution* (price 5s. net—Her Majesty's Stationery Office). The publication endeavours to cover central government, local government, public undertakings and social services, but it is central government alone that receives anything approaching adequate treatment. In its first part, it seeks to formulate standards, and, in the second part, to describe procedures in operation in France, the Netherlands, Sweden and the U.S.A. (It is suggested that the second part be read before the first.)

The booklet is at once stimulating and annoying. It is annoying because of its language, which shows no trace of the influence of Sir Ernest Gowers' *Plain Words*. One is jolted by the word "routinising,"

for example, and few would be rash enough, on a first reading, to say what is meant by the sentence: "Inefficiency in government accounting stems directly from an institutional arrangement that sanctions repetitive accounting as a substitute for an adequate system to ensure accountability."

A booklet of this size cannot be exhaustive, but it does pronounce upon a few of the most important issues and it supplies valuable data on others. It disclaims any advocacy of uniform procedures in all countries. One naturally looks to it for information and ideas on the problem of cash versus income - and - expenditure accounting, which was extensively examined by the Committee on the Form of Government Accounts. That Committee concluded that, in general, an income-and-expenditure basis would "encounter insuperable practical difficulties" in respect of services other than trading services. The booklet provides much material on this problem for the four countries and a useful general discussion on "cash and accrual." There is a description of the American special account known as "payment of certified claims," to which are transferred undisbursed portions of appropriations at the expiry of the two-year period after the end of the financial year during which obligations may be liquidated.

The suggested requirements for an effective system are set out under five heads, viz. functions of accounting, audit, management considerations, accounting problems and the improvement of accounting systems. These matters are summarised in a couple of pages, stressing the need for periodic re-examination and "a continued re-adaptation and modification of techniques." It is suggested also that safeguards designed to control the use of public moneys have the effect of hampering and delaying the conduct of fiscal affairs. In a number of fields, it is argued, greater flexibility should be sought, and particular reference is made to the use of contingency funds.

Here is a selection, almost at random, of questions suggested by this publication. Is a sole Comptroller and Auditor General preferable to a General Auditing Court of three members, appointed for life, with majority voting, as in Holland? Should the Treasury have controlling officers outposted to British Departments, as in France? Would it be better if the Minister, rather than the Permanent Secretary, was respon-

sible for finance and accounting, as in Holland? Should sanctions be imposed on officials who make mistakes, as in France, Holland and Sweden? And what use are sanctions if they exist solely in theory, but not in practice? Are lump-sum appropriations desirable for public works, as in Sweden? Are there better systems of payment than payable orders drawn on the Paymaster General and Postal Drafts? (compare the postal cheque system in use on the continent.) Should auditors' visits be unannounced, as in France? Should virement be facilitated by transfers from "unforeseen expenses," as in Holland? Are the Swedes on the right lines in having, in addition to the general Budget, two emergency budgets, one to cover economic crises and one for war? Would the Public Accounts Committee be improved by having members drawn from the Upper House, as in Sweden?

One can spend much time thinking about such questions, but one is probably biased by contact with long-standing practice or by a hesitancy to think well of the unusual. How welcome it would be to have the benefit of oral discussions with those who are actually engaged in administering unusual procedures. And how much more welcome would be a period of sitting alongside officials in other countries and watching their system operate. To what extent do British civil servants have opportunities to study other systems? Recently a questioner in the House of Commons asked how many civil servants had been lent to NATO countries. The answer was "6." There is some flow of officials in the opposite direction. The United Nations Organisation grants scholarships by means of which government servants have opportunities of acquainting themselves with procedure in other countries, including our own. *Government Accounting and Budget Execution* lays some stress on the desirability of scholarships and training abroad.

There is clearly room for much more study of comparative public finance and accounting. It is satisfactory that the United Nations Organisation is pushing ahead in this field. The booklet here discussed is merely one of a group, of which one (*Budgetary Structure and Classification of Government Accounts*) has already been produced and others (for example, *A Manual for the Classification of Government Accounts*) are still to come.

## Taxing the Foreigner—I

By ERNEST EVAN SPICER, F.C.A.

### FOREWORD

THERE IS NOTHING VERY ORIGINAL IN THE IDEA OF "TAXING the foreigner," and if only we knew how to do it, with impunity to ourselves, how happy we should be.

So far, we have failed most dismally to find a solution to the problem, satisfactory to our national—or should we say our international?—aspirations.

This is due to no lack of effort on our part. We have tried again and again, but each time the "Economic Paradise," which loomed so clearly ahead of us, has proved to be a mirage. This is most disappointing and, to those who lack the "never-say-die" spirit of the late Mr. Robert Bruce, positively discouraging.

The proposition is simplicity itself and needs no explanation.

There is no suggestion that we should share our possessions with our foreign friends. That would indeed be anti-British and vulgar. All we desire is to share our liabilities with them.

Is there not something spiritually uplifting in the thought of allowing others to participate in our burdens, and is it not our duty, as well as our pleasure, to give them this opportunity, even to the point of forcing it upon them?

Let us never forget how seldom duty and inclination run side by side. Periodically most of us experience generous impulses, and we all know how fully we satisfy them when we give away other people's property!

So highly, in fact, do we esteem generosity that we rank it above most other virtues and carry it with us, quite often to the very threshold of the grave.

### *He was good to the Poor*

Who could ask for a nobler epitaph? These beautiful and touching words were carved on the granite tomb of a man who died quite shortly after being sentenced to a long term of penal servitude for defrauding the public. He had been ever generous with other people's money.

How can we safely tax the foreigner?

Mr. Greatheart informs us that Britons alone, among the peoples of the earth, suffer taxation gladly, while all foreigners evince stubbornness when the taxgatherer knocks at their door. He makes no attempt to explain this strange phenomenon, nor does he provide us with any solution to our problem. Here merely exhorts us to "study our failures and thereby to learn wisdom."

P.S.—Since writing the above, we have been greatly encouraged by receiving a very heartening message from

the Rev. Stephen Collins. He informs us that he will support any campaign which has for its object the taxation of foreigners, and recommends that these special taxes be collected in hard currency.

\* \* \*

Let us, in the first instance, clarify our minds on the meaning which we attach to the expression "taxing the foreigner."

Clearly, we are not referring to one whose ordinary residence is in this country and who earns his bread, either as a wage-earner or as a self-employed person.

Such an individual will be taxed in precisely the same manner as any ordinary British subject. To suggest that he should be charged an extra shilling or two in the pound income tax, merely because he happens to be a foreigner, is unthinkable. The problem cannot be approached in this crude manner, nor can it be solved by creating an injustice, which would be apparent to the meanest intellect. Any such attempt would inevitably defeat the end in view, by raising a storm of protest against the unfair legislation and by exciting a wave of sympathy throughout the country in favour of the persecuted foreigner.

If an answer to the problem is to be found, subtlety must be the keynote. Any injustice must be cloaked in obscurity, so as to be unrecognisable, and the scheme must be so complex as to be unintelligible to all save the expert. A very wide interpretation must be placed on the expression taxable profits, and upon the agents of the foreigner in this country must fall the burden of collecting the tax in the first instance.

The main danger to be feared (and if possible avoided) is action of a retaliatory nature by the foreigner, such as might render nugatory the underlying object of the proposal. Bitter experience has taught us that the foreigner will not hesitate to adopt such methods, if he considers it advantageous to do so, no matter how unfair and unsportsmanlike they may appear to us to be.

Let us consider one of our many unsuccessful efforts to twist the foreigner's tail. The scheme was based on the "Agency Clauses" originally introduced into the Finance (No. 2) Act, 1915.

### ILLUSTRATION

Nobody will ever forget that in the year 1914 Germany violated her pledged word by marching through Belgium, and thus started the first world war.



Naturally, we opened wide our doors to the stream of Belgian refugees who poured into this country, and gladly did we offer them hospitality.

Few of them arrived with much else than the clothes in which they stood up, and naturally they had to look to the people of this country for the necessaries of life. Receiving centres had to be set up, and many difficulties had to be overcome, before suitable homes could be found for these unfortunate people.

It was not long, however, before we discovered that these Belgians were a proud race, who desired to do what they could to help themselves and to earn their keep, and thus, despite language difficulties, many of them quickly settled down to such work as they were able to undertake.

Amongst these Belgians were a number of highly educated and important business men, including agents of some of the great Congo companies.

To these latter gentlemen, it mattered little whether they conducted their agency business from Belgium or England, and thus, within a remarkably short space of time, they established themselves in London and earned very substantial commissions on the sale of the much needed produce, which the Congo companies were able to ship to this country. In this manner, not only did they support themselves, but also they were enabled to assist some of their less fortunate countrymen, who had likewise sought refuge on our shores. Moreover, they contributed substantial sums to our Revenue by way of taxation on commissions earned, and influenced the Congo companies to act generously in the matter of the price of the produce.

It was at this juncture that someone breathed the "blessed" words, "Let us tax the foreigner."

The Congo companies were surely making immense profits out of the produce which they were selling in this country through their accredited agents, and why in these circumstances should not we relieve them of some of their surplus wealth?

Here was a glorious chance of satisfying our national aspirations of taxing the foreigner, whether he liked it or not. All we had to do was to estimate the profit made by the Congo companies in this country and then to instruct the agents to pay us the tax on this hypothetical profit and to deduct the sum so paid from moneys belonging to their principals passing through their hands. It was a chance in a lifetime, not to be missed.

The Clauses of the Act which legalised this fleecing of the foreigner were far too complex for the ordinary man to understand and the idea that sympathy could possibly be aroused, in favour of wealthy Congo companies, in the midst of a life and death struggle with the Germans, was too ridiculous to warrant a moment's consideration.

The answer to the riddle of taxing the foreigner had at long last been discovered and a solemn hymn of thankfulness was chanted at Somerset House.

Nobody paid the least attention to Mr. Greatheart's words of warning. They ridiculed the suggestion that we were playing a scurvy trick on our Belgian guests and forgetting our first duty as hosts. They pointed out that all we were doing was to tax non-resident aliens, who were lining their purses and growing fat at our expense, and that

it was but fair and reasonable that they should contribute something towards the cost of the world struggle.

Thus, to our very great satisfaction and comfort, we collected the first instalment of tax, wrested from unwilling foreign pockets, and looked forward, with sanctimonious eagerness, to a steady flow of future revenue from the same source.

The Congo companies were justifiably perplexed when, for the first time, they observed an item, of no small magnitude, under the heading of British income tax, figuring prominently in the accounts rendered to them by their agents, and at first attributed it to error, but when they realised the true state of affairs, they were very indignant and protested loudly against this confiscatory procedure.

Their protests, however, were in vain. The Revenue authorities had tasted blood and their appetite was whetted. Was it reasonable to expect them to surrender voluntarily a source of revenue so fruitful? As well ask Mother Hubbard's dog to surrender a meaty bone.

Their reply to the Congo companies was singularly pointed even if it lacked originality—"Heaven helpeth them, who help themselves."

But alas, we overlooked that streak of stubbornness, that wilful refusal to give way to their betters, which so disfigures the character of all foreigners.

They replied to our ultimatum, not in words, but in deeds. They cancelled all their agencies in England and appointed other agents in New York, shipping all their produce to America, instead of to this country.

The Belgian agents in England were thus thrown out of work and were forced, from thence onwards, unwillingly to accept our charity; the Revenue authorities collected no further tax on the commissions, which previously the agents had earned from the Congo companies, and eventually we were compelled to buy the produce from America at three times the original price.

Thus did we suffer a cruel loss and thus did the ungrateful foreigner bite the hand that robbed him.

Unlike the Psalmist, have we not, in very truth, seen "the righteous forsaken" and "his seed begging bread" of neighbours far afield?

\* \* \*

It rarely pays to be too greedy and it must be admitted that, in our many unsuccessful efforts to tax the foreigner, we have sometimes been guilty of asking for more than decency could swallow or conscience stomach.

We should never forget that we live on a small island with very limited natural resources, and that we have a huge artificial population which depends for its very existence on the export trade of the country. It may thus be said that it is all-important for us to keep in with the foreigner, since if he started to boycott our goods, we might be unable to buy sufficient food and our population would starve.

The foreigner, in consequence, is our one really important customer with whom we should never quarrel.

Today, being in a very unpleasant economic "jam," we are beginning to recognise the importance of this axiom, but tomorrow, when once again we are able to stand on our own feet, albeit a trifle shakily, we may very

easily forget our good resolutions and revert to our old ways of thinking.

Let us therefore, for the good of our souls, consider a case which Mr. Greatheart handled in pre-war days, which, though it was amicably settled in the end, nevertheless, at the time, created much indignation in the United States of America.

#### ILLUSTRATION

It is almost an impertinence to remind our readers that Mr. Thomas Gainsborough, the great master of English portraiture, painted a series of coloured boys, including the world famous "Blue Boy."

The "Purple Boy" was, in reality, the gem of the collection and naturally the Trustees of the National Gallery longed to possess it. They knew, however, that until death duties reduced the proud and ancient family de Flisson to abject penury, the "Purple Boy" would continue to adorn, in isolated splendour, the great Banqueting Hall of Castle Racadour in Cheshire.

When the inevitable happened, and the de Flisson family were forced to part with their inheritance, an appeal was made to the nation to save the "Purple Boy" from leaving our shores.

Strange as it may seem, the response of the British public was niggardly and at one moment it seemed certain that the great masterpiece would cross the Atlantic.

It was at this critical juncture that help came from a most unexpected source.

It chanced that Mr. Gregory K. Gastropolar, the great American philanthropist, was cruising in the Mediterranean and by good fortune had invited the Rev. Stephen Collins to join him for a much needed rest. The Greek Islands had always appealed to Mr. Collins, and as he sat on deck, basking in the sunshine, with a "John Collins" at his elbow, he experienced a warm feeling of benevolence toward all the world.

He had just read in the *Athens Courier* of the death of the great Lord de Flisson and of the appeal which had been launched to preserve the "Purple Boy" for the Nation.

Ought he to respond to the appeal?

It was a delicate question. So far *The Times* had not published the names of any of those who had contributed less than ten guineas, and it would indeed be very lamentable if his generosity were to pass unnoticed.

For several minutes he reclined in his deck chair with closed eyes and clouded brow, when, in a flash, he saw with the mind's eye the path of duty stretching very clearly before him.

Why should not Mr. Gastropolar provide the needful, and why should not he, the Rev. Stephen Collins, be acknowledged throughout the length and breadth of Britain as the saviour of the "Purple Boy"?

Without a moment's delay, he rushed to the saloon and poured into the ears of his astonished host the gist of his proposal, with such inspired eloquence that long before the sun had cast its shadow on—

..... the rocky brow  
Which looks o'er sea-born Salamis

Mr. Collins had drafted a cable to the Trustees of the

National Gallery, informing them that he—after much spiritual wrestling—had persuaded Mr. Gastropolar to subscribe £100,000 to save the "Purple Boy."

Now Mr. Gastropolar had a house in Belgrave Square and was regarded as "resident" for any year in which he visited this country. He was assessed to British tax on the basis of his remittances to this country, but it never entered his head that the Revenue authorities would dream of treating the £100,000, which he had contributed to the National Fund, as a remittance subject to taxation.

He failed, however, to realise that "fleecing the foreigner" was a solemn duty, thrust upon the Revenue and sanctified by successive generations of law-makers.

In due course, therefore, he received a notice of additional assessment in the sum of £100,000, upon which the tax, at 10s. in the £, amounted to £50,000. (Actually the tax was not 10s. in the £. This rate has been taken for purposes of simplicity only.)

He was informed by the Inspector of Taxes that a remittance of £50,000 to meet this tax would, of course, carry with it a further liability to tax on the tax, amounting to £25,000, and a remittance of £25,000 to meet this tax on the tax would involve further liability to tax of £12,500, and so on *ad infinitum*.

He suggested therefore, as a simple expedient, that Mr. Gastropolar should arrange to have a further sum of £100,000 remitted forthwith from America, on which the tax would amount to £50,000, leaving a balance of a like sum, available to meet the tax on the original remittance, thus settling the income tax liability once and for all.

Mr. Gastropolar was so hurt by the treatment which was being meted out to him in return for his generous gesture, that he sought the advice of his old friend Sir Ambrose Whiting, who at once introduced him to Mr. Greatheart.

Mr. Greatheart immediately sought an interview with the Chairman of the Board of Inland Revenue, Sir Godfrey Earl, and pointed out how disastrous to this country would be a strict enforcement of the law, since obviously no American would contribute in the future to any appeal made in the national interest. Moreover, the incident might well lead to unfortunate political repercussions when it got noised abroad.

Sir Godfrey replied that the chief difficulty lay in the fact that Mr. Gastropolar had an "abode" in this country, but nevertheless, if Mr. Greatheart, by using his imagination, could suggest some way in which the Revenue could reasonably turn a blind eye on the letter of the law, sympathetic consideration would be given to the case.

Mr. Greatheart at once pointed out that as the gift of £100,000 had been remitted direct from America to the Trustees of the National Gallery, there was technically no remittance to Mr. Gastropolar.

This argument was eventually accepted and the additional assessment was discharged, but Mr. Gastropolar at once sold his house in Belgrave Square and returned to America with sorrow in his heart and a firm determination never to set foot in Great Britain in the future.

Mr. Greatheart refused to accept any reward for his



services but promised to call on Mr. Gastropolar the next time he visited the United States.

In reply to a very tactful letter, marked "Strictly

Private and Confidential," the Trustees of the National Gallery informed the Rev. Stephen Collins that no commission was ever paid by them for services rendered in influencing gifts, whether in money or in kind.

(To be continued)

## Taxation Incentives in Western Germany

By H. B. MARKUS, B.Sc.(ECON.), A.S.A.A.

THE ECONOMIC RECOVERY OF WESTERN Germany in the last five years has astounded the world. Dr. Erhard's policy of "a dash for freedom," supported by generous American aid, has turned a war shattered economy into a leading industrial nation. It is therefore of interest to examine some of the taxation factors which have operated during this period.

Present taxation policy can best be appreciated if some of the financial and accounting problems arising out of the currency reform are briefly traced. The currency reform took place on June 21, 1948, and every business had to prepare a Reichsmark Closing Balance Sheet at June 20, 1948, and a Deutschemark Opening Balance Sheet at June 21, 1948. The general rate of conversion of Reichsmark claims and obligations was one Deutschemark for ten Reichsmark, while bank balances were generally converted at the rate of 6.50 Deutschemark for 100 Reichsmark. The Deutschemark Balance Sheet Act laid down special provisions about the valuation of assets and liabilities in the Deutschemark Opening Balance Sheet. These provisions departed in some respects from usual accounting principles and even overruled the German Companies Act. For instance, they allowed "movable" fixed assets (fixed assets other than land and buildings) to be valued in excess of cost. The Act laid down that these fixed assets could be valued at their replacement cost on either August 31, 1948 or August 31, 1949, whichever was the lower, subject to certain deductions to take into account the age of each asset. Depreciation for taxation purposes could then be charged on these enhanced values.

Mention must, at this stage, be made

of the Equalisation of Burdens Act (*Lastenausgleichsgesetz*). This Act sets up a fund to compensate those who suffered heavy losses as a result of the war. Contributions to this fund take two main forms:

- (1) A tax on windfall conversion profits.
- (2) A capital levy.

### *The tax on windfall conversion profits*

The currency reform, by reducing the rate at which claims could legally be discharged, brought windfall profits to all those who at that date had substantially higher liabilities than claims. The tax amounts to 100 per cent. of the conversion profits, which are computed by deducting the losses suffered on conversion of bank balances and amounts receivable from the profits gained by the conversion of amounts payable. The resulting profits may be reduced by certain business losses suffered between 1940 and 1948. The tax is payable with interest over a period of twenty-four years.

There is a similar tax on individuals not trading who made profits out of the conversion of mortgage loans.

### *The capital levy*

The capital levy amounts to 50 per cent. of the net assets at June 21, 1948, as computed for purposes of the "net assets tax" (*Vermögenssteuer*). The tax is payable with interest over a period of thirty years.

Although the Equalisation of Burdens Act did not pass into law until August 1952, provisions of this nature had, since the currency reform, been widely expected, and this acted as some deterrent to an excessively high valuation

of "movable" fixed assets in the deutschemark opening balance sheet. Nevertheless, many concerns took full advantage of the provisions of the Deutschemark Balance Sheet Act by valuing these assets at the maximum allowed. They evidently considered that the immediate advantage to be gained by heavy depreciation charges in the early years after the currency reform outweighed the disadvantage of a higher liability to the capital levy, the payment of which was anyhow spread over the thirty years to 1979.

In view of the recently proposed reduction of 15 per cent. in personal income tax rates, it is instructive to examine the taxation position of companies and individuals.

### *Taxation of companies*

Companies pay corporation income tax (*Körperschaftsteuer*) at the rate of 60 per cent. on their profits. There are certain other taxes such as the income element of the trades-tax (*Gewerbesteuer*), the net assets tax and the Distress Levy Berlin (*Notopfer Berlin*), as well as the amortisation payments under the Equalisation of Burdens Act, which are not allowed as a deduction in computing profits for purposes of the corporation income tax. If these taxes are taken into account companies pay an average rate of tax of at least 70 per cent. on their earnings. Dividends paid by companies are subject to income tax in the hands of the recipients, who get no relief for the underlying tax suffered by the company. One of the budget proposals now before the West German Parliament provides for the reduction of corporation income tax from 60 per cent. to 40 per cent. on that portion of



the profit which is distributed by way of dividend.

The rate of tax suffered by German companies may appear higher than that borne by companies in this country. Yet it must be remembered that German companies, in arriving at their taxable profits, are allowed to deduct more realistic depreciation charges than those allowed in the United Kingdom.

#### *Taxation of Individuals*

The income tax payable by individuals is a graduated one. Compared with income tax in this country, it is higher at the lower stages of income, but it is not as steeply graduated as our sur-tax at the higher levels. Under the budget proposals a marginal rate of tax of 55 per cent. (income tax 9s. plus sur-tax 2s.) will be reached in this country at a figure of £2,000, while in Western Germany the proposed alterations will mean that the same rate of marginal tax will only be paid at an income of £4,750. Furthermore, the overriding limit of income tax payable by an individual alone is to be reduced from 80 per cent. to 70 per cent. of the taxpayer's total income and the highest marginal rate of tax is to be reduced from 95 per cent. to 80 per cent. It will be borne in mind, however, that a taxpayer in the higher income groups, who derives his income from sources other than employment, is likely to be affected by the contributions under the Equalisation of Burdens Act.

There can be little doubt that the West German economy, like ours, is heavily taxed. But certain reliefs and incentives have been worked into the taxation system to further (1) exports, (2) production and (3) savings.

#### *Reliefs and incentives—(1) Exports*

A manufacturer may deduct from profits 3 per cent. of the proceeds of goods exported, up to a maximum of 50 per cent. of total profits. It cannot be denied that this relief gives the exporter an element of subsidy. On the other hand the problems facing firms engaged in the export trade deserve special consideration. The need for stimulating exports is preached by practically every West European government, yet firms concentrating on the capture of export markets take heavy risks and if their endeavours

prove successful find the major part of their gains taken in taxation. The West German government, like some others in Europe, has sought to escape this dilemma by this tax relief for exports.

#### *Reliefs and incentives—(2) Production*

Income from overtime is given favourable taxation treatment if the recipient's normal remuneration does not exceed £600 per annum, and a minimum basic week of at least 48 hours is worked. The relief is given by exempting from income tax the remuneration which is paid in excess of the normal hourly rates. Thus, if overtime is paid at, say, time-and-a-half, the normal hourly rate is taxed in the usual manner while the additional half is exempt from tax. The visitor to the Federal Republic, who has seen buildings spring up almost overnight, is left to ponder dolefully on the economic progress this country might have achieved if a similar attitude towards overtime had been adopted by the United Kingdom Revenue authorities.

#### *Reliefs and incentives—(3) Savings*

A varied number of reliefs are available. A single taxpayer may deduct the equivalent of approximately £65 per annum from his income for taxation purposes in respect of life and social insurance premiums paid. A married man is allowed £100 and a further £33 in respect of each child for which he receives a child allowance. If a taxpayer is over 50 years of age, the deductions from income in respect of premiums paid are doubled.

A taxpayer may further reduce his taxation liabilities by (a) entering into an agreement with a bank or savings institution whereby a certain sum is deposited for three years or regularly quarterly payments are made into a deposit account over the same period, or (b) subscribing to certain recognised loans raised by the Federal Government, the States (*Länder*) or public boards and authorities. Of the amounts laid out under (a) and (b), 50 per cent. qualifies for relief, up to a maximum of 15 per cent. of the taxpayer's statutory total income.

#### *Stimulation of Capital Market*

It is appropriate to refer to the Act passed to stimulate the capital market

(*Kapitalmarktförderungsgesetz*), which came into operation on January 1, 1953. The Act applies to fixed interest bearing obligations, which are divided into three groups. Interest receivable on these securities may be wholly exempt from income tax and corporation income tax or may be satisfied by a 30 per cent. or 60 per cent. tax deduction at the source. Through the medium of this Act the Federal Government, the States and local authorities are enabled to issue loans which give the taxpayer a far better yield than he could obtain from the purchase of shares. This diversion of capital is causing much concern in industrial circles. The rate of interest offered on these tax exempt loans is at present 5 per cent., and for individuals and corporations with high marginal tax rates they are an attractive form of investment. In March, for instance, the state of Hessen issued a 5 per cent. loan at 98 per cent., which is repayable by equal instalments in 1956, 1957 and 1958.

The United Kingdom taxpayer, who is assessed on his Post Office Savings Bank Deposit interest which yields  $2\frac{1}{2}$  per cent., may well look with envy upon Germany, where the subscriber to a public loan is getting a far higher tax-free return and is also allowed to deduct part of the cost of acquiring the loan in computing his income subject to tax.

If the question were to be asked if any of the reliefs and incentives operating in Western Germany could with advantage be built into our own taxation system, the answer would definitely be in the affirmative. Nothing in the German tax system is more striking than the incentives given to individuals to save. At present the United Kingdom taxation system gives individuals, apart from a small measure of life assurance relief, no such incentive whatsoever. Rather, rates of tax have become so high that people are prevented from saving. Consequently the clumsy instrument of the Budget surplus, so deadening to incentive, has been used to produce the necessary savings. In Germany, in spite of two runaway inflations within the lifetime of a generation, the taxation incentives offered have produced an ever-increasing volume of savings from individuals of all income groups.

# The Budget

THE HIGHLIGHTS OF THE BUDGET ARE SUMMARISED BELOW. The Finance Bill must be awaited to see exactly the effect of the proposed changes in the law.

The outstanding features are the reduction in the standard rate of income tax, the repeal of the excess profits levy and the restoration of initial allowances.

## Income Tax

The standard rate for 1953-54 is to be 9s. in the pound, a reduction of 6d. A similar reduction in the reduced rates keeps the reduced rate relief the same as before, thus:

Charge on first £100 at 2s. 6d.	means relief at 6s. 6d.
"    " next £150 " 5s.	"    "    4s.
"    "    " £150 " 7s.	"    "    2s.

The limit of income for age relief to apply is to be raised from £500 to £600, above which amount marginal relief will apply. The relief for a dependent relative and for a housekeeper is to be increased from £50 to £60. The limit of the relative's income goes up by £10.

The exemption hitherto given to residents in the Scilly Isles is to cease.

Authors are to be allowed to spread backwards over the period of writing the work (up to three years) royalty payments receivable within two years of the first publication of the work in question, in the same way as lump sums are at present allowed to be spread.

Five recommendations of the Tucker Committee and two of those in the first report of the Royal Commission are to have attention in the Finance Bill, namely:

(a) *Partnership changes.* New provision is to be made as to the tax chargeable and the person on whom it is chargeable where there is a change in the partnership or in the division of profits. It may be remembered that the Tucker Committee recommended that cessation should be applied on a change unless a claim was made for the preceding year basis to continue; that on a change, the continuing partners should in any event be entitled to carry forward their shares of losses and capital allowances; and that on a change in profit sharing the partners could opt for the cessation provisions to apply.

Presumably the "*Osler v. Hall*" loophole will be plugged at last!

(b) *Losses.* In the year following a loss, it may be set against other income. The position regarding set-off against earned income, etc., to be clarified.

(c) *Inter-company payments.* A payment by a company to an associated company to make good a loss is to be regarded as a trading payment of the one and a trading receipt of the other.

(d) *Buildings* used in connection with the fishing industry or in connection with husbandry or forestry outside the United Kingdom are to rank as industrial buildings for capital allowances.

(e) *Capital allowances* are to be allowed to be postponed in

certain cases where they at present lead to the loss of double taxation relief.

(f) *Overseas income.* An option is to be given to defer payment of tax on such foreign income as is frozen by local currency regulations.

(g) *Unilateral double taxation relief.* The overriding limit on the rate of relief is to be increased to the full United Kingdom effective rate instead of the present 75 per cent. for Commonwealth territories and 50 per cent. for other territories.

The "*Hall v. Marians*" loophole, whereby an individual assessable here on remittances from abroad can live here on borrowed money and transfer the debt abroad to be offset against his income there and so escape United Kingdom tax on it, is to be closed by regarding the amount in question as a remittance. It is true that most British banks have refused to play this peculiar game for the taxpayer but it has long been a source of wonder that the Revenue have hitherto tried so often to combat the scheme by arguing before the Courts that the existing law covered the case; much money has been wasted in the abortive attempts! The latest decision was that of the House of Lords in *C.I.R. v. Gordon*, in 1952.

Farmers whose livestock has had to be slaughtered on account of disease are to be given a further opportunity to elect for the herd basis.

Certain expenditure which at present attracts both maintenance relief under Schedule A and capital allowance, will no longer do so.

## Initial Allowances

Initial allowances are to be restored in respect of expenditure after April 14, 1953, at these rates—(a) industrial buildings 10 per cent., (b) plant and machinery 20 per cent., (c) mining works (other than plant and machinery) 40 per cent.

## Excess Profits Levy

This is to cease at the end of this year, but will, of course, be with us for some time owing to the lag in calculating profits.

The inequitable aspects of the levy are to remain, as the Chancellor said: "I do not propose any changes in the levy as it now exists, and as long as it exists, except to redeem the promises made about minerals and investment holding companies." The relief for increased output is to be extended to include certain additional mineral products.

## Sur-tax

The rates for 1952-53 and 1953-54 are to be the same

as those for 1951-52. This means that the top rate of taxation for 1952-53 remains at 19s. 6d. in the pound, but that for 1953-54 will be 19s., unless second thoughts arise next year!

### Profits Tax

The rates are not affected, but the computations will show the effects of the reliefs for initial allowances, live-stock slaughtered on account of disease, etc. Provision is to be made so that transactions designed to put the capital structure of the iron and steel companies in a suitable state for the marketing of their shares may be carried out without attracting an artificial burden of profits tax.

### Estate Duty

Power is to be taken to accept, in payment of estate duty, chattels normally kept in houses in which H.M. Government has an interest, or in houses which have themselves been accepted in payment of death duties and passed on to the National Trust or other bodies.

### Excess Profits Tax

The time limits for making income tax assessments on post-war refunds of E.P.T. are extended to three years after the receipt of the refund. All undertakings and authorities regarding refunds are to become inoperative with the commencement of the Finance Act, 1953.

## Budget Estimates, 1953-54

### A.—ORDINARY REVENUE AND EXPENDITURE

ESTIMATED REVENUE				ESTIMATED EXPENDITURE				
		£000	£000					£000
<b>Inland Revenue—</b>								
Income Tax .. .. .		1,782,250		Debt Service .. .. .				615,000*
Sur-tax .. .. .		127,000		Payments to Northern Ireland Exchequer .. .. .				48,000
Death Duties .. .. .		160,000		Other Consolidated Fund Services .. .. .				10,000
Stamps .. .. .		52,000						
Profits Tax and Excess Profits Tax .. .. .		214,000						
Excess Profits Levy .. .. .		99,500						
Special Contribution and other Inland Revenue Duties .. .. .		1,000						
Total Inland Revenue .. .. .			2,435,750					
<b>Customs and Excise—</b>								
Customs .. .. .		1,044,300						
Excise .. .. .		680,480						
Total Customs and Excise .. .. .			1,724,780					
Motor Vehicle Duties .. .. .			69,000					
TOTAL RECEIPTS FROM TAXES .. .. .			4,229,530					
Post Office (Net Receipt) .. .. .			2,685					
Broadcast Receiving Licences .. .. .			16,000					
Receipts from Sundry Loans .. .. .			25,000					
Miscellaneous .. .. .			95,000					
TOTAL REVENUE .. .. .			4,368,215					



# 1952-53 Outturn and 1953-54 Budget Estimate

New (alternative) Classification  
(after 1953-54 taxation changes)

## REVENUE ITEMS

RECEIPTS	£ million		PAYMENTS	£ million	
	1952-53 Outturn	1953-54 Estimate		1952-53 Outturn	1953-54 Estimate
Tax Revenue* .. .. .	4,282	4,230	Interest on Debt* .. .. .	577	580
Broadcast Licences* .. .. .	15	16	Interest outside Budget .. .. .	64	88
Sundry Loans (Interest)* .. .. .	8	8	Post-war Credits .. .. .	16	16
Miscellaneous* .. .. .	41	45	Other Expenditure* .. .. .	3,499	3,465
Interest outside Budget .. .. .	64	88			
Housing receipts from Votes .. .. .	21	21			
<b>TOTAL REVENUE RECEIPTS .. .. .</b>	<b>4,431</b>	<b>4,408</b>	<b>TOTAL REVENUE PAYMENTS .. .. .</b>	<b>4,156</b>	<b>4,149</b>
			<b>SURPLUS .. .. .</b>	<b>275</b>	<b>259</b>
	<b>4,431</b>	<b>4,408</b>		<b>4,431</b>	<b>4,408</b>

## LOANS AND OTHER NON-REVENUE ITEMS

RECEIPTS			PAYMENTS		
Post Office (Net Receipt) .. .. .	—	2	Sinking Funds* .. .. .	35	35
Sundry Loans (Principal)* .. .. .	17	17	Export Guarantees .. .. .	1	1
Miscellaneous* .. .. .	76	50	Excess Profits Tax Refunds .. .. .	6	4
Export Guarantees—Repayments .. .. .	2	2	War Damage .. .. .	58	80
Local Authorities—Repayments .. .. .	17	20	Capital and Loan, etc., Items in Supply		
Raw Cotton Commission—Repayments .. .. .	22	10	Expenditure* .. .. .	183	205
Coal Nationalisation—Repayments .. .. .	4	4	Change in trading stocks, etc.* .. .. .	—11	—74
Film Corporation—Repayments .. .. .	1	1	Stockpiling of Strategic Reserves* .. .. .	68	48
Other repayments .. .. .	1	1	Scottish Special Housing .. .. .	9	9
			Armed Forces—Housing .. .. .	6	7
			Loans to Local Authorities .. .. .	412	400
			Loans to Northern Ireland Exchequer .. .. .	8	4
			Loans for New Towns Development .. .. .	24	34
			Loans to Film Corporation .. .. .	1	1
			Town and Country Planning—Issues to		
			Central Land Board .. .. .	3	1
			Coal Nationalisation—Working Capital, etc.	41	43
			Overseas Resources—Colonial Development	7	8
<b>TOTAL NON-REVENUE RECEIPTS .. .. .</b>	<b>140</b>	<b>107</b>	<b>TOTAL NON-REVENUE PAYMENTS .. .. .</b>	<b>851</b>	<b>806</b>
<b>EXCESS OF NON-REVENUE PAYMENTS</b>					
<b>OVER RECEIPTS .. .. .</b>	<b>711</b>	<b>699</b>			
	<b>851</b>	<b>806</b>		<b>851</b>	<b>806</b>
<b>TOTAL RECEIPTS .. .. .</b>	<b>4,571</b>	<b>4,515</b>	<b>TOTAL PAYMENTS .. .. .</b>	<b>5,007</b>	<b>4,955</b>

"Overall" Deficit 1952-53 £436 million. "True Revenue" Surplus 1952-53 £275 million. "Above-the-line" Surplus 1952-53 £88 million.  
"Overall" Deficit 1953-54 £440 million. "True Revenue" Surplus 1953-54 £259 million. "Above-the-line" Surplus 1953-54 £109 million.

\* These items are shown in the "above-the-line" account in the old conventional accounts.

# Taxation Notes

## Taxation and Dividends

SOME COMPANIES ARE BEING CRITICISED for not increasing or for passing Ordinary dividends. Before criticising, it is well to examine the facts, in these days where overtrading is so prevalent.

Assume that a company has issued capital as follows:

£100,000  $7\frac{1}{2}$  per cent. Participating Preference Stock entitled to further  $2\frac{1}{2}$  per cent dividend when Ordinary shareholders get that rate.

£200,000 Ordinary stock on which 10 per cent. has previously been paid.

Consideration is to be given to the proposal to pay 10 per cent. again.

The amount needed to pay the dividend for 1952 in full (assuming no further investment income or other gross relevant distributions and no E.P.L.) is £43,500, as shown in the table at the top of this page.

If the company, as is so common, has a large overdraft, it seems that the interests of the shareholders are much better served by using the money to service the borrowings than by paying it away. It is then up to the directors to review the company's overheads with a view to effecting economies and improving profits.

In the figures above, only the profits needed to pay the dividends in full have been examined. If the company is earning no more, it would usually in any event be bad finance to distribute up to the hilt.

Should the earnings be double those shown, income tax and profits tax would take half of them, leaving little enough to service the loan while paying full dividends. It might be considered that unless the profits were at least £30,000 above the £43,500 minimum, leaving £15,000 in the "Kitty," the full dividends ought not to be paid.

In many such instances, it is found that the company runs into E.P.L. just about that point, eating still further into the amount available to carry forward.

Dividend policy is a headache today!

Profits	£	£
Income tax and $2\frac{1}{2}$ per cent. profits tax	21,750	43,500
Profits tax 20 per cent. on dividends (gross £30,000)	6,000	
		27,750
Net dividends		£15,750
If no ordinary dividend is paid:		
Profits		43,500
Income tax and $2\frac{1}{2}$ per cent. profits tax	21,750	
Profits tax 20 per cent. on $7\frac{1}{2}$ per cent. Preference dividend (gross £7,500)	1,500	
		23,250
Net Preference dividend		20,250
		3,997
Carry forward		£16,313

## Profits Tax—The Inequity of Distribution Charges

The fact that profits tax is charged on profits tax as well as on the balance of profits is not always realised. Moreover, since January 1, 1952, it is charged on income tax and E.P.L. as well. The result is that, since 1947 began, the amount available for carrying forward is always less than the

amount required to pay a dividend equivalent to the non-distribution relief. Yet the full non-distribution relief is liable to be withdrawn by a distribution charge if the gross relevant distribution of a future year exceeds the profits before abatement but including franked investment income.

Consider these figures, assuming that the profits for income tax do not differ from those for profits tax:

Calendar years	1950	1951
Profits for profits tax	£ 20,000 @ 30 p.c. = £6,000	£ 20,000 @ 50 p.c. = £10,000
Franked investment income (F.I.I.)	£5,000	£4,000
Dividend	£14,000	£10,800
Net relevant distribution (N.R.D.)	20,000	20,000
	$\times 14,000$	$\times 10,800$
	11,200	24,000
Non-distribution relief	8,800 @ 20 p.c. = 1,760	9,000
		11,000 @ 40 p.c. = 4,400
Profits tax	£4,240	£5,600
Profits	£ 20,000	£ 20,000
Profits tax	4,240	5,600
	15,760	14,400
Income tax @ 9s. 6d.	7,486	6,840
	8,274	7,560
Net dividend	7,350	5,670
Carry forward	924	1,890
Gross equivalent	£1,760	£3,600

If in 1952, the results were:	
Profits for profits tax	£200
F.I.I.	£800
Dividend	£12,800

Distribution charge on  
 $\text{£12,800} - \text{£1,000} = \text{£11,800}$   
 $11,000 @ \frac{1}{2} \times 40 \text{ per cent.} = 2,200$   
 $800 @ \frac{1}{2} \times 20 \text{ per cent.} = 800$

Profits tax £3,000

It may be argued that a dividend would not be paid. That does not alter what would happen if it were.

If it is the Treasury view that a company should pay a sur-tax, let it be plain, not obscure.

Taxation has got out of hand !

### Excess Profits Levy, etc., as Affecting New Issues

There seems to be no little confusion in some quarters about the relative merits of borrowing or issuing share capital. It may be useful to make the comparison with figures.

Take the case of a company whose E.P.L. standard at January 1, 1952, was £46,000 and which, on that date, borrowed £100,000 at 5 per cent., and compare its tax position with that which would have resulted: (a) had it borrowed nothing and (b) had it made an issue of £100,000 share capital instead. To compare like with like, it is necessary to assume a 5 per cent. dividend in (b). Profits for all three taxes are taken as £60,000 for the year 1952, before deducting interest on the loan.

Comparative figures, assuming no franked investment income or gross relevant distribution other than net dividend, are as shown below.

Where, therefore, the whole loan attracts the addition to the standard of the full 4 per cent. and E.P.L. is payable, there is little to choose between a loan or share capital.

It is unlikely that any issue in loan or shares would be made unless it was expected to produce extra profits. Such extra profits would suffer tax at 80 per cent. in any event, e.g.:

Extra profit	£	£
Income tax and 2½ per cent.	1,000	
profits tax	500	
E.P.L. 30 per cent.	300	
		800
		£200

Where E.P.L. is not payable, the position is different. On the above figures the respective amounts left to carry forward would be:

No issue or borrowing	£	30,000
Borrowing	27,500	
New capital	26,375	

If the new money could be invested to produce franked investment income, the profits tax could be reduced, but that is hypothetical in view of the anti-avoidance provisions.

Had a director-controlled company been involved and none of the borrowed money been from directors, the comparative figure of carry forward for a new issue of share capital would be:

Profit	£	£	£
Standard profits	46,000	60,000	
14 per cent. on £100,000	14,000		
		60,000	
Previous carry forward		25,775	
Saving on E.P.L.		600	
New carry forward		£26,375	

	No Borrowing or New Capital	Borrowing	New Share Capital
	£	£	£
Profits	60,000	60,000	60,000
Loan interest		5,000	
		55,000	
Standard Profits	46,000	46,000	46,000
4 per cent. on loan		4,000	
		50,000	12,000
12 per cent. on new capital			58,000
Excess	£14,000	£5,000	£2,000
Profits	60,000	55,000	60,000
Income Tax and 2½ per cent. profits tax	30,000	27,500	30,000
20 per cent. profits tax on dividend			1,000
E.P.L. 30 per cent.	4,200	1,500	600
Net dividend			2,625
	34,200	29,000	34,225
Left to carry forward	£25,800	£26,000	£25,775

### Double Taxation Convention with Belgium

A double taxation convention between the United Kingdom and Belgium has been signed. It provides for avoidance of double taxation on income and profits and is expressed to take effect in the United Kingdom from April 6, 1951.

The convention, which is subject to ratification, is similar to those already made with France and other European countries.

### BOOK REVIEW

INCOME TAX, SUR-TAX, PROFITS TAX AND EXCESS PROFITS LEVY. By R. Glynne Williams, F.C.A. 21st Edition. (Cassell and Co., Ltd., London. Price 15s. net.)

The outstanding feature of this well-known introductory treatise, now in its twenty-first edition, is the wealth of clearly worked examples with full annotations. The style of presentation is clear and has just the right approach for the beginner.

The subject is dealt with entirely from the practical aspect, no doubt because most examinations—particularly in the introductory or intermediate stages—lay so much emphasis on this aspect. Nevertheless, there might have been a fuller note on the history of income tax and some explanation of the voluminous case law on the subject, for it is important that the student should be equipped at the outset with the outline of what he will require for his advanced studies. The addition would also give a little sparkle to what appears to many students to be an arid subject. The absence of case references on important points is particularly to be regretted. On the other hand, there are adequate statutory references.

Perhaps the order of presentation of the topics is not quite so happy as it might be. If allowances and reliefs were dealt with before the complications of bases of assessment under Cases I and II of Schedule D, the student might acquire a broader understanding initially and so be enabled the more easily to absorb the intricacies of Schedule D.

This edition brings the work up-to-date and all references are to the Income Tax Act, 1952, and the Finance Act, 1952. Subject to the points made earlier in this review—not in themselves of crucial importance—the intermediate student will find that the book provides all that he requires.

H. H.



# Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

## INCOME TAX

*Machinery and plant—Sale of business as going concern including machinery and plant—Whether balancing charge feasible—Income Tax Act, 1945, Section 17 (Income Tax Act, 1952, Section 292).*

**C.I.R. v. John Bass (Henry & Galt)** (Court of Session, January 13, 1953, T.R. 7) was a case where the respondent carried on business as Henry & Galt. He had sold the business, together with machinery and plant, to a new owner, who continued to carry it on. The Revenue contended that there had been a sale of machinery and plant and that a balancing charge could be made under Section 17 of Income Tax Act, 1945. For the respondent it was argued that liability arose only where, in the words of the Section, "the event in question occurs before the trade is permanently discontinued," and that, as the sale and the technical discontinuance were simultaneous, no balancing charge was feasible. The point had already been decided against the Crown in *C.I.R. v. West and others* (1950, 29 A.T.C. 217; 31 T.C. 402), and, this being admitted, the case was formally decided in favour of the respondent. The intention, presumably, is to take the point to the House of Lords and, if there is failure there, to legislate.

*Agricultural Land and Buildings—Allowance for capital expenditure—Restriction of relief in respect of farm-houses—Farm-house—Non-resident farmer—Whether farm-house occupied by shepherd a "farm-house"—Income Tax Act, 1945, Section 33 (Income Tax Act, 1952, Section 314).*

**Lindsay v. C.I.R.** (Court of Session, January 13, 1953, T.R. 5) was a small case which arose out of Section 33 of Income Tax Act, 1945, a Section intended to encourage capital expenditure, whether by owner or tenant, upon agricultural property by allowing 10 per cent. per annum for 10 years on the cost of constructing farm-houses, buildings, cottages, etc. (Expenditure of the nature dealt with under Rule 8 of No. V of Schedule A was excluded.) Certain classes of expenditure, in view of duality of purpose, were, however, to be dealt with specially. In the case of farm-houses, only one-third was to be taken into account for the relief; and the issue in the

case was whether a sum of £352 spent on providing a new scullery was expenditure upon a farm-house. The tenant of the farm was resident in U.S.A. and had so been during all the years of the tenancy. The only dwelling-house on it was occupied by the farm shepherd and his family, the "farm affairs" being said "to take place at the office of solicitors in Stranraer." The General Commissioners had held that the house in question was the farm-house of the farm; and a unanimous Court upheld their decision as one of fact. Lord Carmont, giving the only reasoned judgment, said:

The farm-house does not, as I understand it, cease to be the farm-house merely because the person conducting the farm is not the farmer himself, but a person to whom he delegates the duty of running the farm, as in this case the shepherd who is employed on his behalf to run it.

The reader of the judgment is left in doubt as to the division of farm business between solicitors and shepherd; but one would have thought that the whole cost of providing a scullery for the latter was, in the circumstances, within the intention of the relief.

*Schedule A—Properties in respect of which landlord assessable—Person not assessed as landlord served with notice of intention to proceed against him as having been the landlord—No appeal against notice—Person assessed as landlord in respect of similar properties—No appeal against assessment—Summons for leave to sign judgment for tax unpaid—Whether taxpayer entitled to leave to defend—Income Tax Act, 1918, Section 169—Finance Act, 1941, Section 12(1), Schedule I, paragraph 5—Finance Act, 1942, Schedule X, paragraph 6(3)—Rules of Supreme Court, Order 14.*

**Pearlberg v. C.I.R.** (C.A., January 19, 1953, T.R. 17) was a case which arose out of certain wartime legislation whereby the Revenue obtained special powers, especially in the extension of those under Rule 8 of No. VII of Schedule A, Income Tax Act, 1918. The plaintiff's case may well have been intrinsically worthless, but the Court found itself unable to go into its merits and, as a result, the reader may be excused if he concludes that with the law as it stands the possibility of hardship exists. From the early days of the income tax, the difficulty

of applying taxation at the source to small properties and to short period tenancies had been recognised and, in consequence, the landlord had been made assessable. In 1853, this method was extended to apartment and tenement houses occupied by two or more occupiers severally; but in all cases where the landlord was made assessable the right in case of default to recover from the occupiers was preserved, although it naturally became more difficult of exercise as rates of tax were increased. Again, to collect from the landlord it was first necessary to identify him and then to assess him as such and, in 1941, drastic legislative steps were taken to deal with a class which had proved elusive.

The relevant clauses in the Finance Bill which became Sections 12-15 and the First Schedule of Finance Act, 1941, were passed without discussion in the House. They represented a very free interpretation of a Budget Resolution. By sub-Section (1) of Section 12:

An assessment to income tax under Rule 8 of No. VII of Schedule A shall be valid as against all persons although not made on the person who should have been assessed. . . . Provided that where that person is not the person named in the assessment the provisions of Part I of the First Schedule . . . shall have effect. . . .

Turning to the long First Schedule, it will be sufficient to quote from Part I as regards the person intended to be charged:

1. Legal proceedings shall not be instituted . . . until the expiration of twenty-one days from the service on him by the surveyor of a notice in writing . . . specifying the land and the amount of tax claimed and stating that it is intended to proceed against him for the recovery thereof as having been the landlord of that land on the first day of January in the year of assessment for which the assessment is made.

Any objection, either against the amount of the assessment or upon the grounds that the person served with the notice was not the landlord, was to be by way of appeal to the General Commissioners. By paragraph 5 of the First Schedule, one fatal to the first part of Mr. Pearlberg's case:

Where no appeal is brought or is pending as aforesaid, it shall be conclusively presumed that the person on whom the notice was served was the landlord of the land on the said first day of January and that the amount of tax specified in the notice is due from him in so far as it still remains unpaid. . . .

It will be seen from the above that where the person served with the notice is not named in the assessment and is not the actual landlord the onus of proof is upon him. There is no statutory requirement that the Inspector shall have reasonable cause for thinking that the person on whom he serves notice is in fact the landlord, and,



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apparently, nothing to preclude his issuing a series of notices until by trial and error he finds either the right person or a wrong one who becomes "the landlord" by disregarding either wilfully or by inadvertence the notice served on him. Assuming the wrong person being compelled to pay, the victim is given no right of recovery either against the real landlord—if he can find him—or against anyone else.

In the case under review, the Master and the Judge in Chambers had given judgment for the Revenue against Mr. Pearlberg in the sum of £438 7s., representing balances of uncollected tax under Schedule A, in respect of low-class properties in the Manchester area, for the years of assessment 1943-44 to 1947-48; and the appellant asked the Court for liberty to defend against the Revenue claim. There were two groups of properties. The appellant was not the person assessed in respect of the first group; but the statutory notices had been given by the Inspector and no notices of appeal had been lodged. In support of his application the appellant made an affidavit wherein he swore that during the years of the claim he had not been the owner and had never been in receipt of any rents or profits therefrom. As to the second group of properties, in respect of which he had been assessed, in a second affidavit he swore that at no time during the years of the claim had he been the owner, occupier or landlord of them although he did have a chief rent issuing out of them, from which tax would have been deducted, if paid. He had, he swore, been adjudicated bankrupt in 1943 and had at all times been undischarged. He had not appealed against the assessments.

Denning, L.J., giving the only judgment, said that where the procedure provided was by way of appeal to Commissioners the taxpayer was not entitled to have the issue tried in the High Court. As regards the first group of properties, paragraph 5 of the First Schedule applied, whilst Section 169 of the Income Tax Act, 1918, applied in the case of the second group, with the result that both debts had become absolute. It will be observed that the appellant's affidavits did not declare that he had never been in receipt of rents, etc. from the properties in question and this possibly gives a clue to the Revenue's attitude. As to the second group of properties, the appeal provisions were to be found in the Tenth Schedule to the Finance Act, 1842, which, by Section 42 of the Act, were to have effect "until Parliament otherwise determines." By paragraph 6(3):

The time within which notice of appeal may be given against an assessment under Schedule A... shall in the case of any person who has not been served with a notice of

the assessment be any time before the expiration of twelve months from the end of the year of assessment.

As, by paragraph (1) of the Schedule, Section 134 of the 1918 Act was made inoperative, it would seem that where an additional assessment is made more than twelve months after the end of the year of assessment the taxpayer's right to give notice of appeal is contingent on his being served with notice of assessment, a differentiation of position which can scarcely have been contemplated. The report of the case does not reveal the position of the second group of properties in respect of notices.

## ESTATE DUTY

*Gift inter vivos—Disposition of landed estate with entry postponed—Date of disposition more than five years before death—Date of entry less than five years—Customs and Inland Revenue Acts, 1881, Section 38(2); 1889, Section 11(1)—Finance Act, 1984, Section 2(1) (c)—Finance Act, 1946, Section 47.*

**Thomas v. Lord Advocate** (Court of Session, January 30, 1953, T.R. 19) was a case where the issue was at once simple and difficult. In 1944 the appellant, then on service abroad, was informed by his father that certain lands were to be handed over to him and, appellant agreeing, a disposition was signed on May 4, 1945, and delivered to appellant's solicitor on May 6, 1945. Appellant's father died on May 12, 1950. Under the disposition the appellant's entry was postponed until Whit Sunday, May 15, 1945, so that his father was entitled to receive the rents due at Whitsuntide. Apart from this it was conceded that the transfer was completed by delivery of the disposition on May 6. The Revenue claimed that duty was payable under Section 2(1) (c) of Finance Act, 1894, in respect of the property comprised in the disposition as being:

property taken under any gift, whenever made, of which property *bona fide* possession and enjoyment shall not have been assumed by the donee immediately upon the gift and thenceforward retained to the entire exclusion of the donor or of any benefit by contract or otherwise.

The Revenue's case was that the gift was of the lands themselves and that the donee did not assume possession and enjoyment of them as lands until May 15. The appellant's case was that the gift was made on May 6 and after that date nothing remained to be done by the donor, the gift being that of a vested right in the fee of the estate with a right to get the rents after Whit Sunday. Apart from the donor's right to occupy and possess the lands and

the right to the fruits up to May 15, he had given away everything else on May 6.

After a review of the relevant decided cases, Lord Thomson said that the issue arose on the earlier words of the enactment. Was the property taken under the gift the lands or the personal right to them? He preferred the latter view, because on May 6 the appellant obtained a right which he there and then possessed to the exclusion of his father, a right which, as he had said earlier, he could have disposed of, or used as a fund of credit. Lord Patrick agreed with this conclusion; and in his judgment stressed the point that, if the Revenue's view was correct, where A was entitled to property subject to B's life interest, inasmuch as A could not give possession and enjoyment during B's life he could not dispose of his interest in the property during his life so as to make it not assessable for estate duty on B's death, no matter how long A lived after the gift. He held that the right reserved by the donor to occupy between May 6 and May 15 formed no part of the gift, and that on May 6 there was an immediate gift of all interests in the estate and farm, save only the right of occupation prior to May 15.

Lord Mackintosh, dissenting, held that by postponing appellant's entry to the lands until Whit Sunday, the disposition, in effect, provided that, whilst the appellant was to get a personal right to the fee of the lands on May 6, he was not to get the possession and enjoyment of those lands until May 15. During the interval, he said, the appellant "had no sort of possession or enjoyment, natural or civil, of the lands themselves." As Lord Thomson said:

Each side presents a consistent and logical argument, if one concedes the premises from which each starts. But each side starts with a very different theory of what the gift was.

*Cesser of interest—Settlement—Trustees to keep up assurance policies on life of father—Father no interest in policies on his own life, having sold the same for full surrender value to trustees—Death of father—Policy moneys paid to trustees—Life interest in trust income continuing—Whether a cesser of interest on death of father due to cessation of assurance premiums—Finance Act, 1894, Sections 2(1) (b), 7(7).*

**In Re Brassey's Resettlement** (House of Lords, February 5, 1953, T.R. 43) was noted in our issues of March, 1951, at page 113, and September, 1951, at page 350. By a deed of appointment and resettlement of 1935, between the deceased (Captain Brassey), his son Hugo Brassey, and trustees, the last-mentioned held policies for £40,000 on the life of Captain Brassey, who died in 1946. In accordance with directions in the deed the trustees had paid out of the trust income premiums of £1,976 per annum and

on Captain Brassey's death, as no further premiums were payable, Hugo Brassey's income as tenant for life was increased. The Crown claimed duty under Section 2(1) (b) of the Finance Act, 1894, in that there was property deemed to pass, being

property in which deceased or any other person had an interest ceasing on the death of the deceased, to the extent to which a benefit accrues or arises by the cesser of such interest.

and that on this footing the "slice theory" based on Section 7(7) of the Act applied, with the result that the Crown claimed duty upon a sum of over £100,000, the amount of duty being over £60,000 upon the policies for £40,000. The Master of the Rolls, whilst giving his judgment for the Crown in the Court of Appeal, stressed the strangeness of the result which the trustees in the due performance of their duty had managed to achieve by depriving Hugo Brassey, the tenant for life, of £1,976 per annum. The Crown's claim rested on the fact that Captain Brassey had three daughters who would ultimately have become entitled under the settlement had nothing been done under its provisions to defeat their rights. These daughters could, so long as their beneficial rights existed and Captain Brassey lived, have required the trustees to pay the premiums, and it was this right which, in the lower Courts, had been held to be the "interest" which had ceased on the death of Captain Brassey and thereby brought the policy moneys within Section 2(1) (b).

A unanimous House of Lords reversed the decision of the lower Courts, Lords Porter and Reid giving the only full judgments. Lord Porter said that if property was to be deemed to pass there must be not only property and a person or persons interested but also a cessation of that interest. He could not think that in any ordinary sense the interest of the ladies was the right to have the premiums paid. What they were interested in was the receipt of the policy money and the death did not make that interest cease. It was merely an event upon which the insurance money became payable; and the ladies' interest was unchanged. They had not ceased to enjoy anything. On the contrary the property in which they were interested had become more valuable.

Lord Reid, in the course of his judgment, after pointing out the startling character of the Crown's claim, said that the 1894 Act provided as method of valuing benefits on the cesser of an interest which often resulted in the statutory valuation very greatly exceeding any possible real value, and that as the rates of duty were increased the effects became more serious. In his view, the glaring disparity in the case was not due to the 1894 Act but to Parliament

not having chosen to make any change to meet vastly different circumstances. In the present case he, as Lord Porter had done, considered that the real interest of the ladies was not in the premiums but in the sums assured. The premiums were only means to an end and the ladies lost nothing when they ceased to be paid; on the contrary they gained by the addition of £40,000 to the capital. He found it very difficult to see how a person's "interest" in any real sense could cease, unless by the cesser he lost something of actual or at least of potential value, which he might have had if the deceased lived longer. Whatever might be the technical nature of the ladies' rights as to the premiums it was in substance only an ancillary right for the protection of their real interest, which was to get in the £40,000.

Whilst Lord Porter held that the superficially similar cases of *In Re Hodson's Settlement* (1939, 1 Ch. 343; 17 A.T.C. 331) and *Westminster Bank v. A.G.* (1939, Ch. 610; 18 A.T.C. 52) had no direct application, Lord Reid found it unnecessary to express any opinion about them. The reader will probably share the opinions of the judges in the case about the 1894 Act provisions; and it is obviously anomalous that whether immense sums of duty are or are not to be payable should depend on such legal hair-splitting.

*Life assurance policy on life of deceased—Settlement on eve of marriage—Inclusion of policy in settlement—Covenant by deceased to pay premiums—Alteration of terms of settlement by private Act of Parliament—Resettlement—Subsequent deed of appointment whereby policy and a certain property held in trust for plaintiff absolutely—Premiums thereafter paid by plaintiff—Death of assured more than five years later—Whether policy kept up by deceased for benefit of plaintiff as donee—Whether any beneficial interest accrued or arose on deceased's death—Customs and Inland Revenue Acts, 1881, Section 38; 1889, Section 11—Finance Act, 1894, Sections 2(1) (c), 2(1) (d), 13, 15—Finance (1909-10) Act, 1910, Section 59(2)—Finance Act, 1939, Section 30.*

**D'Avigdor-Goldsmid v. C.I.R.** (House of Lords, February 5, 1953, T.R. 29) was noted in our issues of March 1951, at page 112, and December 1951, at page 456. The deceased had died in April 1940. In May 1904, he had taken out a life policy of £30,000 with profits and on his death this was valued at £48,765. The yearly premium was £695. In October, 1907, he had married and on the previous day had included the policy in a marriage settlement under which the deceased was to pay the premiums. In 1928, by the Goldsmid Estate Act, the settlement was revised and in 1930 there was a disentailing deed and a

resettlement. In 1934, by a deed of appointment, the policy was to be held by the trustees in trust for the plaintiff absolutely and discharged from the trusts of the resettlement, and the deceased was to be relieved of his covenant to pay the premiums. Of the 33 premiums paid subsequent to the marriage settlement, 27 had been paid by the deceased and six by the plaintiff. The Revenue had claimed duty, under Section 2(1) (c) of the Finance Act, 1894, upon the basis that the deceased had kept up the policy for the benefit of the plaintiff as donee, or under Section 2(1) (d) on the basis that a beneficial interest accrued or arose by survivorship on the death of the deceased. Vaisey, J., had held that the word "donee" was not applicable to a series of donees and signified the ultimate beneficiary. He also held that on the facts the deceased could not be considered to have kept up the policy for the benefit of the plaintiff and that the claim under Section 2(1) (c) failed. As regards the claim under Section 2(1) (d), as the plaintiff had been sole and absolute owner of the policy for more than five years, the case was covered by *Lord Advocate v. Hamilton's Trustees* (1942, S.C. 426, 21 A.T.C. 253), and that claim also failed. In the Court of Appeal, it was held that as regards "donee," the finding of Vaisey, J., was incompatible with *A.G. v. Barclays Bank* (1944, A.C. 372), where it had been held by Wrottesley, J., that it would comprehend a number of persons entitled to successive interests. The Court, however, held that a new argument for the plaintiff was well-founded and that as the plaintiff was within the "marriage consideration" of the 1907 settlement he could not be a "donee." As to the Revenue's claim under Section 2(1) (d), after an exhaustive review of the authorities by the Master of the Rolls it was held that a beneficial interest accrued or arose on the death of the deceased in the shape of the policy moneys and, as a consequence, duty was chargeable. The Court of Appeal had, therefore, refused to follow the Scottish decision.

In the House of Lords, the Revenue abandoned the claim under Section 2(1) (c), and a unanimous House reversed the decision of the Court of Appeal under Section 2(1) (d). The following passage from the speech of Viscount Simon may be said to be representative of their lordships' findings:

A life policy is a piece of property which confers on the owner of it the right, if certain conditions continue to be satisfied, to claim and be paid the policy moneys on the death of the person whose life is assured. These rights, therefore, belonged to the appellant from 1934, and were the beneficial interest in the policy, which belonged to him from that moment. When the death occurred, he

held these rights, and the quality of these rights was not changed by the death, which was merely the occasion when the rights were realised. There was, therefore, no new or additional beneficial interest in the policy which arose on the death of the appellant's father. For six years past he had had absolute and unfettered ownership of the policy. As

Mr. Justice Vaisey had pointed out, he "could have sold it, mortgaged it, given it away, destroyed it, settled it, or (being a policy on his father's life) he could have surrendered it at the moment when his father was *in extremis* at the point of death." If he had done any of these things, the Crown could not have claimed to aggregate the

policy moneys with the rest of the estate for the purposes of duty.

The decision is of great importance and will either render obsolete or entail reconsideration of a number of earlier decisions upon which Departmental practice has been based.

## The Student's Tax Columns

### PERSONAL COMPUTATIONS, RELIEFS AND ANNUAL PAYMENTS

EARNED INCOME AND PERSONAL RELIEFS ARE AVAILABLE only against the income enjoyed. Where, therefore, the annual payments exceed the unearned income, so that the excess must come out of earned income, the reliefs are restricted as necessary.

Deductions for superannuation contributions which have to be met out of earned income must be deducted from the earned income, but National Insurance contributions (N.I.C.) are deductible first from unearned income. The latter requires attention, as the N.I.C. are usually shown as deductions in the assessment on earned income.

#### Illustrations (1952-53)

	A	B	C
Earned Income ..	£1,500	£1,000	£500
Unearned Income (taxed at source)	100	(taxed at 200 source)	(N.A.V.) 50
	<u>£1,600</u>	<u>£1,200</u>	<u>£550</u>
Superannuation	£90	£50	—
N.I.C. .. .. .	22	9	14
Annual payments:			
Loan Interest	—	40	—
Building Soc. Int.	—	—	45
Bank Interest ..	95	—	—
All are married with two children, giving family allowance of £20 16s. od. each.			
A has allowable life assurance premiums of £120.			

#### Computations

	A	B	C
Earned Income ..	£1,500	£1,000	£500
Superannuation ..	£90	£50	£—
N.I.C. .. .. .	22 112	9 59	14 14
	<u>1,388</u>	<u>941</u>	<u>486</u>
E.I.R. (see below)	£310	£212	£110
Personal, etc. R. (do.)	413 723	365 575	365 475
	<u>£665</u>	<u>£366</u>	<u>£11</u>

A	B	C
£100 at 3/- = £15 0 0	£100 at 3/- = £15 0 0	£11 at 3/- £1 13 0
150 at 5/6 41 5 0	150 at 5/6 41 5 0	
150 at 7/6 56 5 0	116 at 7/6 43 10 0	Sch. A
265 at 9/6 125 17 6		£5 at 3/- = £0 15 0
<u>£238 7 6</u>	<u>£99 15 0</u>	

	Reduced Rate Relief on Investmt. Income
Less Bank Int. Relief £95 at 9/6 45 2 6	£34 at 2/- 3 8 0
<u>£193 5 0</u>	<u>£96 7 0</u>

The reliefs are as follows:  
Earned Income as above  
Less Superannuation

	A	B	C
Earned Income as above	£1,500	£1,000	£500
Less Superannuation	90	50	—
	<u>£1,410</u>	<u>£950</u>	
Family allowances	£20	£20	£20
Unearned Income N.I.C.	£22	£9	£14
Payments in nature of charges	95	40	45
	<u>117</u>	<u>49</u>	<u>59</u>
Excess payments	£17	—	£9
E.I.R. restricted to an income of	£1,393 + £20	£950 + £20	£491 + £20
Personal Reliefs:			
Personal	£210	£210	£210
Children	170	170	170
L.A.R. 40% of £120	48	—	—
	<u>£428</u>	<u>£380</u>	<u>£380</u>
Less Family allowances	£20	—	—
Deduct E.I.R.	5 15	15	15
	<u>£413</u>	<u>£365</u>	<u>£365</u>

In the case of C, had the interest been such that he deducted tax at source, he would have had to pay under Schedule A (in addition to the tax on £5 at 3s. = 15s.) tax on £45 at 9s. 6d. = £21 7s. 6d., so accounting for the tax deducted. In the illustration, however, it is building society interest from which tax is not deductible, so the Schedule A assessment is discharged to that extent.



## The Month in the City

### Pre-Budget Markets

THROUGHOUT THE WHOLE OF THE FIRST half of the month, the slow rise in fixed interest securities continued under the lead of the Funds. The rise was restricted to dated stocks and it is to be noted that the improvement in Old Consols was greater on the day after the Budget than in the preceding six weeks and in the general gilt-edged index it was the same as in the preceding two and a half weeks. In most other sections of the Exchange, however, there was some set-back before the Budget. This was mainly associated with the talk of a cessation of hostilities in Korea and of other developments in the field of international politics, which depressed commodity prices and the shares of companies producing them. But the general run of industrials were only slightly affected, although good company results caused some individual shares to rise. Up to this point the buying of the Funds was very largely good investment, and there was only a modicum of speculation. Immediately before the Budget, industrial ordinary shares and some commodity shares, including gold mines, showed a modest rally. There was also an acceleration of the rise in the Funds; this was associated with a fresh outbreak of rumours of a cut in Bank Rate and of a funding issue by the Exchequer. Why such Daltonian methods should be attributed to Mr. Butler is not apparent, but the talk even survived the opening of the Budget.

### Budget Effects

The immediate effect of Mr. Butler's plans was inevitably to stimulate interest in industrial equities and in all those concerns catering for the general consumer, save for retailers, who would make losses on holdings of stock on which purchase tax had been reduced. In so far as Mr. Butler evidently envisages a deflation of the whole economy and an expansion in exports, it was reasonable to expect some improvement in the demand for raw materials. This, however, seems to have been largely discounted in advance. Many shares rose, because of the income tax concessions or because they

would benefit from lower purchase tax on their products, or just because consumption in general would expand, but the really big rises in industrials were reserved for the companies which had been paying heavy E.P.L. The Funds headed the advance and were alone in virtually retaining all the early gains, which were based mainly on marking-up. It will be some time before technical factors cease to affect the level of prices; but the more enduring effects of the market to the Budget can hardly be other than favourable, although the rise should perhaps be concentrated on equities rather than of fixed interest stocks. As reflected in the indices of the *Financial Times*, price changes between March 23 and April 24 were; for the Funds a rise from 96.12 to 97.41, in fixed interest from 107.08 to 107.84, in industrial Ordinary shares a fall from 125.0 to 119.9, and in gold mines an improvement from 95.74 to 95.81. The announcement of the decisive victory of Dr. Malan at the polls caused the last figure to be lower than the best reached.

### The Jamaica Loan

The general state of optimism which prevailed in the gilt-edged market was responsible for an outstanding success for the small offer of Jamaica 4½ per cent. stock. Unlike a long line of earlier offers of 4½ per cent. stocks, which had been but slowly absorbed by investors, this stock was a success from the first. The heavy over-subscription was met by an allotment of only 4 to 5 per cent. with rather larger proportions on sums under £2,000. The stock immediately went to a premium of well over a point. While it was generally appreciated that subscriptions would be drastically cut, the result is nevertheless an indication that there were investors with ready money and that, whatever the official borrowing programme might be, a rise in rates was not in contemplation.

### Steel

A whole group of events of recent weeks have been a common topic of conversation

in places where the future of equities is discussed, even if they have not so far affected share prices. These matters concern the steel industry and the prospect for the resale of some of the companies to private investors in the not too distant future. In the first place, it is known that discussions are already proceeding on the means and terms of a resale to the public. Although the first sale may be some time off, this fact lends added interest to the achievement of record output by the industry, to the announcement of the details of stage three in the reconstruction of *Dorman, Long*—likely to be one of the first concerns to return to private hands—and to an oblique suggestion by the *British Iron and Steel Federation* that the time is perhaps ripe for a more realistic approach to domestic selling prices for steel. These prices are well below the Continental prices—or so it is alleged—and probably do not cover costs, including replacement, and a reasonable return on the capital invested.

### Conflicting Interests

Each of these matters can and should be considered on its merits—and in passing it may be said that steel is not the only important element in production whose price is highly artificial—but it is quite certain that each will be used by interested parties in the conflict which is likely to arise from the project to float off some of the steel companies. Evidently the Government will wish to obtain the highest possible price. Equally evidently the industry will not wish to be saddled with extravagant capital claims. No doubt the issuing houses will do their best to hold the balance even, and no doubt the skill of accountants and auditors will be sought in large volume and receive due attention. There is, however, going to be such a "talking of one's book" from divers quarters as has seldom been experienced before. Not the least voluble will be Her Majesty's Opposition, which will no doubt argue the case for not impeding, by precipitate or "unco-ordinated" sales of producing units, the Steel Board's plans for reconstruction of the industry. In order that the investing public shall be able to form a reasonable opinion on values it is highly desirable that as much as possible of the artificial elements in the steel industry shall be eliminated, but it is very improbable that anything approaching complete success will be achieved. In any event, this topic is likely to play some part in determining share values in the not distant future.

# Points from Published Accounts

## Beautiful Bowater

THE FINANCIAL PRESS WENT INTO EULOGIES over the report and accounts of *Bowater Paper Corporation*—and with every justification. Nearly all of the resources of the printer, the photographer and the colour expert were called into use, with the result that the accounts themselves of the group and of the several subsidiaries were set out in a superlative publication, which was of undeniable value to shareholders. But, alas! it would be beyond the technical scope of many undertakings.

There must be many firms far smaller than *Bowater Paper Corporation* whose accountants are fully deserving of any "Oscars" the financial press may consider awarding, but unhappily their merits go unsung and unheeded. Certainly the last few years have seen an enormous all-round improvement in both appearance and presentation of reports and accounts. If companies can afford the trimmings—in particular, pictures of their factories and their products—so much the better.

## Executives' Shares

In 1947 the senior executives of *Hoover* were allowed to subscribe at par for "A" Ordinary shares. The complicated dividend

rights of these shares need not be stated here. The rewards as well as the risks of taking up these shares are sufficiently evidenced by the jump in the net dividend on the shares from £91,690 to £136,610 in 1951, and the slump in 1952 to £38,435. The shares are held by nearly 100 executives, and using the round figure it will be seen that the average dividend per executive has dropped from £1,366 for 1951 to £384 for 1952. A cut of this magnitude is both a spur and an embarrassment, in the same way as commission based on net profits.

## Statistical Tabulations of Accounting Results—I. Associated Electrical Industries

Accompanying the *Associated Electrical Industries* report and accounts are tabulations of balance sheets and the disposal of income over the seven years to end-1952. The assets amount to £77 million at end-1952 and trading profits are £12.33 million; the compilers have wisely expressed the figures in millions of pounds, and the formidable weight of taxation is brought into bold relief. Writing in advance of the annual meeting, it is presumed that the statistics are compiled, as it were, as an accompaniment to the chairman's speech.

The second table shows that whereas trading profits have risen since 1946 from £3.60 million to £12.33 million, tax has leapt from £1.18 million to £7.20 million, with dividends up from £0.61 million to £1.01 million, the last increase mainly resulting from holding the percentage dividend rate on the Ordinary capital as increased by one-third by a "rights" issue last year.

## —II. Fielding and Johnson

*Fielding and Johnson* also produces statistics, covering the period prior to conversion in 1947 and up to the end of 1952. These show the funds employed, the investment in fixed assets and net current assets, profits before tax and their division between tax, dividends and retentions, depreciation, gross Ordinary dividend rates and the rate per cent. on capital attributable to the Ordinary shareholders. And, finally, the number of members is given.

The company has not been deterred by the almost inevitable setbacks of the past two years from publishing this information and it is to be congratulated on producing an excellent set of accounts. There are no pictures, or coloured tints, and no exploitation of the arts of the printer, but simply a first-rate presentation with the valuable pendant of the accompanying chairman's speech. If the single improvement were made of setting the comparative figures alongside the latest this report could well be a standard for students and emulators.

# Readers' Points and Queries

## Salaried Workers—Holiday Pay

*Reader's Query.*—Is a salaried worker, paid weekly, entitled to holiday pay if he leaves work before his usual holiday period?

Further to this point, is an office worker a preferential creditor for holiday pay in a liquidation?

*Reply.*—The answer to the first question depends upon the exact terms of the contract, and it is highly desirable that the contract should be in writing and should deal specifically with the point. In most cases, however, there is probably no right to any holiday pay if the worker leaves work before his usual holiday period.

If the worker has had his holiday but was not

paid for it, there seems no reason why he should not rank as a preferential creditor for his pay, but if at the time of the liquidation his holiday is still to come, he would probably have no preferential right to the pay which would be due to him in the future.

## Transfers of Business

*Reader's Query.*—Company "A" carries on the trade of "X" while "B" and "C" (both subsidiaries of the same parent as "A") carry on the trades of both "X" and "Y." It is proposed to transfer to "A" all the trade "X" and to "B" all the trade "Y." "C" would cease to trade.

"X" and "Y" refer to types of business. They are not separately assessed.

The Inspector of Taxes proposes to assess the transferee companies as new businesses on the parts of the activities of companies "B" and "C" taken over by them, but not to apply the "cessation" provisions to "B," which continues in trade "Y" but gives up trade "X." To me this seems to be unjustified.

The new business and cessation provisions are among other things designed to ensure that the Revenue do not lose the tax when a business changes hands. If a department is transferred from one continuing company to an existing company both are assessed on the results for the previous year and there is no loss to the Revenue, but the suggestion as stated is that the transferor would be assessed on the previous year (in other words the cessation provisions would not be applied) whilst the

transferee would be assessed as a new business on the results of the department taken over.

*Reply.*—It is not possible to give a categorical answer. All the facts must be known before proper advice can be given, e.g. the magnitude of the businesses, where they are carried on, etc. The principles may be summarised as follows:

- (1) To bring the "cessation" rules into operation in such a case, there must be a succession to a business. To bring the "new business" rules into operation, there must be a succession (Section 145 (2)) or the setting up of a separate trade (Section 128).
- (2) In cases such as this, it is a difficult question of fact whether a business has been newly set up or is a continuance of an existing business; whether the new enterprise is a separate trade or the enlargement of the existing one by the addition of another department.
- (3) If "X" and "Y" can be regarded as separate businesses of "B" Co., there may be a succession to "X," but that would involve cessation and new rules being applied. (Since "C" Co. is to cease trading, cessation rules will automatically apply there.)
- (4) The fact that the purchaser already has a similar business is not a material fact in establishing succession.
- (5) There can be "one-sided" applications of the rules. See, for example, *Laycock v. Freeman, Hardy & Willis* (1938, 22 T.C. 288), where the "cessation" rules applied, but not the "new" ones.

#### Excess Profits Levy— Common Control

*Reader's Query.*—Company A was incorporated in 1948. The shareholders are all directors and hold the shares set out against their names:—

A.	1,764
B.	1,055
C.	1,055
D.	354
	<hr/>
	4,228

D is the wife of A, and B and C are his brothers.

Company B was formed in December 1952, and has the following shareholders:—

A.	750
Q.	751
D.	1
	<hr/>
	1,502

In Company A all shareholders are directors, but in Company B only A and Q are directors. A is chairman of both companies and has a casting vote in each case.

The information required is whether or

not Company B can obtain the minimum standard under Section 41 of the Finance Act, 1952, in view of the proviso to that section with regard to companies under common control. Are these companies under common control in view of the shareholdings of A and D (his wife) in the two companies?

*Reply.*—In view of the casting vote, it is considered that both companies are under the common control of A and D. Section 41, Finance Act, 1952, does not mention the case of two companies one of which was incorporated before 1952, and the other after 1951, except that sub-section (1) does not apply to the second company.

It seems, therefore, that Company B cannot have a minimum standard.

#### Companies Act, 1948—Proxies

*Reader's Query.*—Section 136(3) of the Companies Act, 1948, makes void any clause in a company's articles which requires a proxy form to be received by the company more than 48 hours before the meeting at which the proxy may be used.

Clause 69 of Table A provides that (apart from the case of a poll) a proxy must be received by the company not less than 48 hours before the meeting.

So that the Section says that more than 48 hours is prohibited, and the Clause requires receipt of the proxy not less than 48 hours (i.e. 48 hours or more) before the meeting.

The effect seems to be that the Clause is made inoperative by the Section, so that a proxy must be deposited not more than 48 hours before the meeting. It seems that the Section is wrongly worded, as the intention, surely, must be that the company's officials are to have sufficient time before the meeting to examine any proxies received.

*Reply.*—Section 136(3) prohibits the requirement that a proxy form must be received more than 48 hours before the meeting. There is nothing in the Section to prevent the form being sent in and accepted earlier, but, the company cannot require more than 48 hours' notice.

By Clause 69 of Table A the company requires "not less than 48 hours"—that is, it insists on 48 hours' notice, which is the maximum period it may require under Section 136(3).

#### Maintenance Claims—Set-Off

*Reader's Query.*—In the October 1952 issue under Taxation Notes (page 341), it was stated that in practice where a maintenance claim has been agreed before the tax falls due, it may be set-off against the Schedule "A" tax on the property and not dealt with by way of repayment.

We are finding great difficulty in obtaining the agreement of local Inspectors of

Taxes and we should be grateful if you would let us know if the set-off method is in universal use and if it has the official blessing of the Inland Revenue Head Office.

*Reply.*—Reference should be made to Form 99 (the maintenance claim form), which states: "If, however, the claim is made and proved sufficiently early, the relief may be given before payment of the tax on the property, but collection of the tax will not be deferred for completion of the claim."

#### Agricultural Income

*Reader's Query.*—A farmer is entitled to a capital allowance of £58, under Section 314 of the Income Tax Act, 1952, for 1951-2. Owing to a farming loss, the Schedule D assessment for that year was nil, and the only other income was the net Schedule A as owner of the farm, £51.

By virtue of sub-Section 5 of Section 314, the Inspector of Taxes seeks to set the capital allowance against the Schedule A assessment, as in his view this is agricultural income.

It is contended on behalf of the farmer that the Schedule A assessment of the farm is not agricultural income and that therefore the capital allowance can be carried forward and set off the following year's assessment.

*Reply.*—If the reader will refer to Section 315 he will see that agricultural income includes the income assessable under Schedule A in respect of agricultural land.

#### Farm Accounts—Tenant Right

*Reader's Query.*—Is the amount by which tenant right is exhausted in any year allowed as a charge against profits for Schedule D? If so, how is the amount calculated and over what period are these amounts written off?

*Reply.*—This is adjusted by bringing in the valuation each year. The valuation should be on the same basis as is proper for valuing an outgoing tenant.

#### Set-Off of Tax on Personal Reliefs Against Sur-Tax

*Reader's Query.*—From the note in your March issue (page 89), I gather that the tax on personal reliefs may be set against sur-tax payable for the preceding year. What is the statutory authority for this claim?

*Reply.*—This is a point of the practice of the Special Commissioners; no statutory authority is known to us. But if the taxpayer has not already been repaid any income tax due to him on his personal reliefs, the Special Commissioners will always, if requested, set off this against the sur-tax payable.



## Letters to the Editor

### Co-operation between Lawyers and Accountants

SIR,—Mr. Spicer, in his admirable comments upon lawyers and accountants (ACCOUNTANCY, March, pages 78-84), appears, perhaps unwittingly, to have cast the mantle of Mohammed upon the lawyer.

It may be true of the latter in matters normally falling within his sphere that he displays undue reluctance in seeking out the accountant for a translation into particular arithmetical terms of the general legal principle. Possibly this is attributable more to the transient nature of modern fiscal legislation than to the, no doubt, wholly undeserved reputation for mendacity endured by statistical evidence (and perjury in any form is anathema to the lawyer!) Alternatively, the cause may be entirely unconscious. The unsuspected blind-spot is a common affliction of the professional mind.

It may, therefore, happen that the accountant may find himself subject to the same baneful influence of professional esoterism when he least suspects it and may be quite unaware that the initiative lies with him.

For example, when opening a fresh bank account, issuing an unconditional receipt or debiting the cash account of the loans to directors account or crediting a reserve account, can the accountant feel reasonably certain that he is not about to rush headlong, without a guide, into that penumbra of complex legal notions—implied trusts, estoppel, mistake, rectification—wherein the most fully-haloed of lawyers are known to fear to venture and from which so frequently the Chancery suit provides the sole means of escape? A certified balance sheet may in its effect be as conclusive as an executed deed. Each deserves the fullest possible examination from every viewpoint before completion.

In the light of his evidently extensive knowledge of human frailty, will not Mr. Spicer take second thoughts upon the possibility of wisdom lying in the time-honoured clauses in a partnership deed providing for the salvage of those not inconsiderable numbers of partnerships doomed to founder upon the rocks of partners' mutual distrust? How often is the lawyer's sober foresight mistaken for groundless pessimism!

Yours faithfully,

SOLICITOR.

London.

March 28, 1953.

[Mr. E. E. Spicer replies: I do not for one moment suggest that where there is insufficient

co-operation between lawyer and accountant acting for the same client, the fault is always on the lawyer's side. This would be absurd. I do think it fair to suggest, however, that the effect of the statutory protection given to the legal profession makes it rather more likely to be the lawyer and not the accountant who may overlook an occasion where the co-operation of his professional colleague would be to the advantage of their client.]

SIR,—As a devoted fan of Mr. Greatheart, I share and appreciate his dignified dislike of that opportunist the Rev. Stephen Collins. Notwithstanding, I am certain that doyen of our profession, Mr. Greatheart, will, on the matter being brought to his notice, hasten to bring back a little joy into the life of the Rev. Stephen Collins by pointing out that as Lady Tromblower conveniently died on July 2, 1949, the rate of estate duty payable on her estate is that enacted by the Tenth Schedule of the Finance Act, 1946, and not the rate enacted by the Finance Act, 1949, which rate is payable only on the estate of a person dying on or after July 30, 1949.

Mr. Greatheart might, without undue malice, ask the Rev. Stephen what on earth his nephew was doing to let his old friend's estate be mulcted to the tune of an additional 10 per cent. estate duty.

Yours faithfully,

J. B. YEARSLEY, A.C.A., A.S.A.A.

Manchester.

March 25, 1953.

[We thank Mr. Yearsley for his correction. Mr. Greatheart did not act in this case himself, and regrets that the facts, as subsequently related to him by the incoherent incumbent, were not entirely accurate. The date of death of Lady Tromblower should have been stated as August 2, 1949.]

### Purchase Tax Rebates

SIR,—I suggest after reading your editorial in the April issue (page 111) that you and the Hutton Committee have overlooked the crux of the problem.

There are two main classes of retailers.

The first, those traders being the majority of retailers who have been so vociferous in their campaign for a rebate scheme, and who are not "registered traders" as defined by Purchase Tax regulations.

The second, those traders whose retail activities are combined with manufacturing

or wholesale activities, and who are "registered traders." These traders are in the main the big stores and multiples.

It is admitted that losses fall on a retailer holding stocks of chargeable goods when the rate of purchase tax is reduced or the tax is removed entirely.

The majority of retail traders have to acquire stocks usually on a seasonal basis and the goods are invoiced to them plus purchase tax.

The other retailers being a department of a big concern are able to regulate the flow of stock inwards to the immediate day to day needs of the business, so that at any one time the retail stock on which purchase tax has been imposed is proportionately very small.

Thus the losses resulting from the Government's alterations in the incidence of purchase tax are heavier on the medium and small traders than on the big concerns who are registered traders.

One is prompted to ask if the complacency shown by the Government, manufacturers and wholesalers would continue if purchase tax were imposed and payable when the goods left the factory or when they were disposed of by the importer?

The Government would certainly get a bigger yield from the tax and could inflict more serious losses on traders.

Perhaps the retailers who are estimated to have paid at least £75 million on purchase tax on the goods at any time on their shelves and who have not these facilities should in their respective towns combine to form a wholesale unit through which their stock can be ordered and held in "bond" until actually needed by the retailer for display to the public. Their losses could then be reduced.

Yours faithfully,

R. W. G. TAPER, F.S.A.A., A.C.I.S.

Paignton, Devon.

April 8, 1953.

### Distribution of German Enemy Property

The Administrator of German Enemy Property has now made the first payment of 1s. in the £ on account of all claims established to date for which formal notices of determination have been issued. Claimants will later receive, without further application, the balance of the amount to which they are legally entitled.

The present payments are in no way connected with the German debt settlement on which agreement has recently been reached: the Administrator is not concerned with this.

## Legal Notes

### *Company Law—Rights of past members in winding-up.*

By Section 212(1) (8) of the Companies Act, 1948, "a sum due to any member of a company, in his character of a member, by way of dividends, profits or otherwise shall not be deemed to be a debt of the company payable to that member in a case of competition between himself and any other creditor not a member of the company, but any such sum may be taken into account for the purpose of the final adjustment of the rights of the contributories among themselves."

In **Re Consolidated Goldfields of New Zealand, Ltd.** (1953, 2 W.L.R. 584) a past member of the company was owed £65 in respect of unclaimed dividends declared while she was a member of the company, and the liquidator took out a summons to decide whether that debt was to rank for dividend equally with the unsecured trade debts of the company. Roxburgh, J., said that it was surprising that this question was still uncertain but the reason probably was that the amount of unpaid dividends was rarely large in proportion to the sums involved in a liquidation. In its ordinary meaning "member" was a present member; so-called "past members" were not really members at all; but when the language of all the relevant Sections of the Act was considered, "member" in Section 212(1) did seem to include a past member, and that was the view of the Court of Appeal in *Re Anglesea Colliery Co.* (1866, L.R., 1 Ch. 555). His lordship therefore held that the debt due to the past member for unclaimed dividends must rank after the trade debts.

### *Contract and Tort—Contracts made in name of company before formation.*

In **Newbourne v. Sensolid (Great Britain) Ltd.** (1953, 2 W.L.R. 596) the Court of Appeal affirmed the decision of Parker, J., noted in *ACCOUNTANCY* for January 1953, at page 32.

### *Executorship Law and Trusts—Meaning of "Business."*

In **Re Williams Will Trusts** (1953, 2 W.L.R. 418), a will empowered trustees

to make certain advances to the testator's son on his attaining the age of 35 years "for the purpose of starting my said son in business or for the advancement of any business in which he may be concerned." The son was a doctor and Danckwerts, J. held that the word "business" was wide enough to include the medical profession, and the trustees were entitled to buy for the son a house which contained a surgery or where he could reside and be available for the purposes of his practice.

### *Miscellaneous—Compensation under Transport Act, 1947.*

When the road haulage system was nationalised, the British Transport Commission were able to provide most of the employees of the former undertakings with suitable jobs. Occasionally, however, no suitable job was available, and the Commission could then dispense with a man's services. But, if they did so, they probably had to give him the proper notice required by his contract or else pay him damages, and even if they did give him proper notice, they still had to pay him compensation for loss of employment. By S.I. 1950, No. 1083, men with a right to compensation were divided into three categories; (a) those who, under their previous employment, in the event of discharge had a right or expectation under customary practice to the payment of compensation until normal maximum retiring age of 65; (b) those who had a right or expectation under customary practice to the payment of compensation payable otherwise than until normal maximum retiring age; (c) those who had no right or expectation to the payment of any compensation.

A road haulage undertaking was nationalised in 1949 when the service agreement of S, its managing director, had still ten and a half months to run; S would have had no right or expectation to compensation upon the termination of that service agreement. As the Commission had no suitable work for him, S applied for compensation and the Tribunal made an award which took into account the fact that the service agreement had still ten and a half months to run. The Road Haulage Executive appealed and the Court of Appeal in **R v. Westminster**

**Compensation Appeal Tribunal** (1953, 1 W.L.R. 506) had to decide whether S came within category (b) or category (c).

The Court held that "compensation in the event of discharge" meant compensation in the event of lawful discharge and did not include damages for wrongful dismissal. To decide otherwise would mean that no one would come within category (c) at all, for every worker has a right to at least nominal damages for wrongful dismissal. S therefore was in category (c) and the Tribunal in awarding him compensation were wrong in taking account of the unexpired portion of his service agreement. In other proceedings, S, of course, might have a claim for damages for wrongful dismissal.

### *Miscellaneous—Right of creditor to order for sale of equitable interests.*

A husband and wife owned a house upon trust for sale as tenants in common. A judgment creditor of the husband was appointed receiver by way of equitable execution of the husband's interest in the house and he applied to the Court for an order that the house should be sold, claiming that he was a "person interested" within the meaning of the Law of Property Act, 1925, Section 30, or alternatively that he was an equitable chargee under Section 195 of that Act.

In **Stevens v. Hutchinson** (1953, 2 W.L.R. 545), Upjohn, J., rejected both these contentions. The appointment of a receiver did not create a charge on the property; it merely gave the judgment creditor certain personal rights, for example, a right to an injunction against the judgment debtor receiving the income. Under Section 30 a "person interested" meant a person interested in some proprietary right under the trust and did not include a person with merely personal rights. Under Section 195 a charge was created only over equitable interests in land and not over the proceeds of sale of the land. Further, even if the judgment creditor was a "person interested" within the meaning of Section 30, it would not be right on the facts of the case before him to make an order which would have the effect of turning an innocent wife out of the matrimonial home.

### *Miscellaneous—Road Haulage Compensation.*

A Professional Note appearing in *ACCOUNTANCY*, April 1953, at page 107, dealt with a case on the assessment of compensation for a "one-man" haulage business. The case has now been reported as **Road Transport Executive v. Elrick** (1953, 2 W.L.R. 602).



# Publications

WEAVING'S NOTES ON BANKRUPTCY PRACTICE AND PROCEDURE IN COUNTY COURTS. Second edition. By Thomas S. Humphreys. Oyez Practice Notes No. 38. (*Solicitors' Law Stationery Society, Ltd., London. Price 6s. net.*)

Designed to assist members of the legal profession, this booklet includes in this second edition references to the Bankruptcy Rules, 1952, and the Reserve and Auxiliary Forces (Protection of Civil Interests) Act, 1951.

In 35 short pages the author explains much that is useful to those whose contact with the subject is infrequent. He emphasises the need for care and accuracy in preparing the essential forms to issue a bankruptcy notice; to obtain an order for substituted service in cases where personal service cannot be effected; to obtain an extension of time or to set aside a bankruptcy notice. The reader is referred to appropriate cases.

The booklet proceeds through the various stages necessary to obtain a Receiving Order in Bankruptcy either on a creditor's or on the debtor's petition. Compositions or schemes of arrangement and the affairs of a person who has died insolvent are dealt with. The taxation of costs; the debtor's public examination; the discovery of documents; computations of time where the last day falls on a Sunday or a Bank Holiday are all included in this very small but useful booklet, the appendix of which is confined to some of the more useful forms required to be used by solicitors in bankruptcy procedure.

The accountant dealing with bankruptcy estates would be forgiven if he left the legal side of bankruptcy procedure solely to the lawyers, remembering that the duties and responsibilities thrust upon his shoulders when accepting office as trustee in bankruptcy are onerous enough. Nevertheless, he could with advantage include this publication in his book-case.

A. V. H.

STUDIES IN COSTING. Edited on behalf of the Association of University Teachers of Accounting by David Solomons. (*Sweet & Maxwell, Ltd., London. Price 35s. net.*)

This book is a collection of twenty-six studies in costing, in which the viewpoint of the accountant, the economist, the industrial engineer and the business man are considered. In the opinion of the editor these studies represent some of the best work done in the field of industrial accounting during the last twenty years.

The editor has divided the book into five

sections. The first section covers the history of costing from the beginning of the fourteenth century. The development of costing up to the third quarter of the nineteenth century was slow and mainly concerned with applying double entry book-keeping to the activities of the business man. From then onwards development was much more rapid, with a change of emphasis from the rather narrow technical problem to the much wider one of interpretation—making the accounting records mean something to the business man. The introduction of standard costing and budgetary control provided the means for the control of costs and the reduction of waste. In this section the work of the pioneers in cost accounting is examined, and it would appear that there is very little in modern costing which they did not know about. This section also contains a fascinating study of the books of account kept by an Antwerp printer in the sixteenth century.

The second section deals with concepts of cost and costing. The first study traces the change in the attitude of the cost accountant from the turn of the century, when actual costs were considered to be the essential point in a costing system to meet the needs of the business man, to the present day when the emphasis is on budgetary control, standard costs and profit control. From this point onwards we are introduced to avoidable costs, differential costs, marginal costs, in which statistical methods play no small part. In this section the cost accountant is taken to task for not pushing his theories to their logical conclusion, particularly those dealing with marginal costs. The most significant aim of the business man's activities is taken to be the maximisation of profit, and it is argued that the majority of present-day costing systems do not make normally available to management the information which would allow the correct decisions to be made to attain this *desideratum*. The information in question is that of avoidable or marginal costs. Frequently statistical studies are necessary to find how costs vary with output or with product mix, but it is contended that some combination of statistical and accounting techniques could be found which would give sufficiently accurate results for business purposes.

The third section deals with costing as an instrument of planning and pricing. The maximisation of profits is again the theme. The marginal theory of cost is examined in detail and it is considered that the study of incremental costs is the most important

phase in the activities of the cost accountant. The principle of segregating fixed and variable costs has, of course, been established in the field of budgetary control, but has not generally been applied to product costs. It is felt that variable product costs would be more relevant to managerial decisions than the present total standard costs.

In this section the break-even chart is examined and methods of producing such a chart altogether with potential uses are given. Depreciation, joint production, the allocation of on-costs and budgetary control are in turn the subject of an interesting essay. Throughout, variations in costs are emphasised, and in an essay on the use of space and equipment, the editor develops the point that in considering the problem of product mixtures, it is not the percentage gross margin to sales which each product contributes that matters, but the gross margin to the physical volume of resources utilised for different products. This is a point which seems worthy of much reiteration.

The fourth section deals with costing as an instrument of control. Standard costing, flexible budgeting and material control are re-examined and three excellent case studies are included.

The last section covers costing in the service of the government, and contains essays on the costing of government contracts, cost as a standard for price, costing as applied to local government and efficiency in the public transport of passengers.

This book must be worked at and with. It provides a powerful stimulus to thought on the subject of incremental costs—a section of costing on which much work remains to be done and one which will enable the cost accountant to make a considerable contribution to accounting for management.

*Studies in Costing* is a worthy addition to the literature of cost accounting, and the high literary quality of the contents makes it excellent reading.

H. K.

CLUB ACCOUNTS. By A. R. Lewis. (*Jordan & Sons, Ltd., London. Price 6s. net.*)

This little book of 64 pages contains much useful information for the club official who has to write up the club's books, keep the financial records, prepare periodical financial statements for consideration by the committee, and submit the annual accounts to the club's auditor at the end of the year. It is primarily intended for the many part-time treasurers and secretaries throughout the country, of limited book-keeping knowledge and experience, who give their services conscientiously and without financial



reward. But the full-time club official and the qualified accountant who acts in an honorary part-time capacity will also benefit from studying it.

Besides describing the functions of the various books of account which a club should keep, the author gives a working example showing the cash transactions which might be typical of any month in a club's activities, and deals with them in considerable detail up to the trial balance stage. He also sets out in another example the adjustments to be made on the trial balance and the steps necessary to prepare the final accounts. Although the method

of passing entries for closing stocks and accrued expenses through the journal may be open to criticism, the examples clearly bring out the double entry principles of accountancy.

The sections on the control of cash and stocks make many useful observations on these two major problems of the club treasurer or secretary. The question of capital expenditure could, however, have been elaborated to advantage, especially with regard to the cost of improvements and alterations. No indication is given of the author's views on the method of dealing with entrance fees: this is often a thorny

problem. The records to be kept under the Licensing and Catering Acts, as well as the requirements for P.A.Y.E. and National Insurance, are covered, but something might have been said on budgetary control in club affairs.

Accountants who act as honorary auditors of clubs will welcome this publication, for it should help to raise the standard of club book-keeping, and thus assist the auditors in carrying out their function.

H. G. S.

[A review of *Income Tax, Sur-Tax, Profits Tax and Excess Profits Levy*, by R. Glynn Williams, F.C.A., appears on page 155.]

## THE SOCIETY OF Incorporated Accountants

### THE DISSIPATION OF CAPITAL

AT THE DINNER HELD BY THE INCORPORATED Accountants' South Wales and Monmouthshire District Society at the Park Hotel, Cardiff, on March 27, the chair was taken by Mr. Albert Salter (President of the District Society), and the guests included Mr. William Thomas (Under Secretary, Welsh Office, Ministry of Housing and Local Government) and Mrs. Thomas; Mrs. Albert Salter; Mr. C. Percy Barrowcliff, F.S.A.A. (President of the Society of Incorporated Accountants) and Mr. I. A. F. Craig, Secretary; Mr. R. S. Snelling, J.P., F.C.I.S. (Deputy Chairman, Wales Gas Board); Mr. H. T. Norton (President, Cardiff Chamber of Commerce); Mr. R. D. Milner (President, Newport Chamber of Commerce); Mr. A. Sinclair, M.A., M.E.D. (Headmaster, Howard Gardens High School for Boys), and Mrs. Sinclair; and other representatives of the professions, industry and education. The company numbered about 230.

Before the dinner, the chairman asked the guests to stand in silence in memory of Queen Mary.

Mr. William Thomas (Under Secretary, Welsh Office, Ministry of Housing and Local Government) proposed the toast of the Society of Incorporated Accountants. He said that doctors could bury their mistakes; the mistakes of architects were turned into monuments; but accountants made no mistakes. Accountancy was

distinguished from other professions because it showed a calm and cool approach to all problems. In South Wales during the past half-century nothing had developed without accountants.

He was glad to see at the dinner two past Presidents of the Society, Mr. R. Wilson Bartlett and Sir Frederick Alban.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants), in response, said that in the past year the Government had made little or no attempt to reduce the excessive scale of their expenditure; in fact, it had actually increased in several directions. The country was enduring a level of taxation which could only have the most disastrous effects on future welfare. The incentive of reasonable reward for hard work, initiative, enterprise and risk had been taken away, and everywhere people were discouraged and disheartened. Productive effort over the whole nation was seriously prejudiced.

Thrift had long been an outstanding feature in British character, and the source of the nation's financial strength, but it had now become almost impossible because taxation appropriated the saving margin. Without savings, the capital needed to support industrial enterprises could not be found. This was a vital question, particularly in relation to our export trade.

The accumulated capital of the past was slowly but surely being dissipated before our very eyes, continued Mr. Barrowcliff, in paying through taxation for current

domestic amenities. Potential capital for the future was going the same way; and without adequate capital, the future would indeed be grim. We inherited great financial strength from our forefathers, but was it right and proper that we should drain the financial pool dry and leave future generations without at least the resources which had been bequeathed to us?

Whatever plausible explanations were advanced for this or that item of expenditure, the fact remained that we must live within our means. The Canadian Minister of Health had said that work was the only source of social security that had yet been discovered.

Mr. F. M. Forster (Vice-President of the District Society) proposed the toast of "The Prosperity of South Wales." He said that without prosperity in the area, peace might be in danger. If the industries of South Wales were to play their proper part in the economy of Britain, a start must be made immediately on improving road conditions.

Mr. H. T. Norton (President of the Cardiff Chamber of Commerce), responding to the toast, said that the decline of the coal trade in South Wales had led to whole areas becoming almost derelict. The problem had been tackled by the establishment of industrial estates, and 120,000 new factory jobs had been provided in Wales and Monmouthshire since 1937.

Satisfactory as that development was, they were still left with the problem of the ports. The economies of South Wales and Monmouthshire were largely intertwined with those of the West Midlands, but it was mainly a one-way traffic. The West Midlands received from Wales the unfinished material, but exported the finished product chiefly through other ports. They could not hope for any material improvement until they got the long-heralded motor highway,

and also parity with other ports in rail rates and charges. Our shipowners would not be able to compete in the markets of the world unless some relief were given in the taxation of undistributed profits.

Mr. Albert Salter (President of the District Society) proposed the toast of the guests. He said that all thinking people were impressed by Mr. Barrowcliff's ideas on taxation.

Mr. R. S. Snelling (Deputy Chairman, Wales Gas Board) and Mr. A. Sinclair (Headmaster, Howard Gardens High School for Boys) replied.

### DESTRUCTIVE TAXATION

THE LEICESTERSHIRE AND NORTHAMPTONSHIRE District Society of Incorporated Accountants held a dinner at the Grand Hotel, Leicester, on March 19, under the chairmanship of its President, Mr. W. H. Rhodes, F.S.A.A.

The company of about 280 included the Lord Mayor of Leicester (Alderman Geoffrey Barnett); The Right Hon. Lord Piercy, C.B.E. (Chairman, Industrial and Commercial Finance Corporation); Mr. C. Percy Barrowcliff, F.S.A.A. (President, Society of Incorporated Accountants), with Mr. I. A. F. Craig (Secretary) and Mr. J. D. Nightingirl, A.S.A.A. (Assistant Secretary); Mr. Herbert Ashworth, LL.B., B.S.C. (ECON.), (deputy and immediate past chairman, Metropolitan Association of Building Societies); Dr. Elfred Thomas, B.Sc., PH.D. (Director of Education for Leicester); Mr. C. H. Wilson, M.A. (Principal, Leicester University College); and other representatives of industry, commerce and professional bodies in the area.

The Toast of "The Queen" was honoured.

The Right Hon. Lord Piercy, C.B.E. (Chairman of Industrial and Commercial Finance Corporation, Ltd.) proposed the toast of the Society of Incorporated Accountants. He said the Society had made it its aim to see that the accountant obtained an education which was adequate to the duties that he had to perform. In 1885 there was very little conception of the complicated things which Incorporated Accountants now had to handle, but it was always a special feature of the Incorporated Society that they laid stress on the education of accountants. That was a very good thing.

The accountant, with his inside knowledge and experience of business facts and business behaviour, had something which was more valuable in the long run to the legislature than anything the more theoretical economist could contribute. The research conducted by the Society, its various memoranda and papers produced

in recent years, were of the utmost value. At this very time they were hoping and expecting something from the profession. They were asking accountants some very deep questions.

Mr. C. Percy Barrowcliff, F.S.A.A. (President of the Society of Incorporated Accountants), in reply, thanked Lord Piercy for the eloquent terms in which he had proposed the toast. Lord Piercy's attendance was much appreciated, as he had to journey to Leicester specially for the purpose.

The forthcoming Budget could, in his view, have far reaching effects on the destiny of the country. A continuation of the present penal level of taxation must have the most grave consequences. Individuals would be faced with less and less incentive to work hard or to save. Businesses suffering from excessive taxation demands would deteriorate further through lack of replacements to keep them alive. It would become impossible to maintain full employment or to support the social services at anything like the present level.

The greatest need was for a reduction in income tax, which would bring back incentive to work to the individual and assist business. A reduction of 6d. in the £ would be quite inadequate. He had been bold enough to advocate that the relief should be in the nature of 2s. 6d. in the £, and he thought the results of doing that would surprise the Chancellor at the end of the year, as he did not yet seem to realise the great damage which taxation was doing.

The introduction of the excess profits levy had been a mistake. The Society had warned the Chancellor of the folly of such a move and their predictions had been proved accurate. The tax was basically unsound and unfair. Mr. Barrowcliff went on to deplore the vicious and destructive scale of death duties. He felt that national and local government expenditure must be cut: people must learn that they could not have every pleasant and desirable luxury, regardless of cost.

Mr. C. D. Lincoln, A.S.A.A., proposing the toast of the City of Leicester, referred to the city's development plan as bold, ambitious and imaginative. He said that at the moment Leicester could be figuratively divided into two cities—an industrial city in the north-east and a residential city in the south.

The Lord Mayor of Leicester in his response traced the history of the city.

Councillor George Gallimore, J.P., F.S.A.A., proposed the toast of the guests. In reply Mr. Herbert Ashworth, LL.B., B.S.C. (ECON.), deputy and immediate past chairman of the Metropolitan Association of Building Societies, said that accountants were essential both in times of depression and in times of prosperity. His remarks were seconded by

Dr. Elfred Thomas, Director of Education for Leicester.

### SAVINGS AND REPLACEMENT COSTS

THE DINNER OF THE INCORPORATED Accountants' Society of Manchester and District was held at the Midland Hotel, Manchester, on April 10.

The chairman was Mr. Arthur T. Eaves, President of the District Society, and the company of 162 guests and members included the Deputy Lord Mayor of Manchester (Alderman W. Collingson); Mr. H. E. Pardoe (Vice-President of Manchester Chamber of Commerce); Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants), with Mr. C. Evan-Jones (Deputy-Secretary); Sir Noel Barre Goldie (Recorder of Manchester); Mr. Peter Geddam (Chairman of Silk and Rayon Users' Association); and a number of representatives of other District Societies and professional bodies.

Mr. Arthur T. Eaves, President of the District Society, proposing the toast of "The City and Trade of Manchester and District," referred to the centenary of Manchester. He said accountants had played a considerable part in the city's progress and still had much to do. They had quite a reputation for hard-headedness.

Mr. Eaves observed that their guests included not only the deputy Lord Mayor, but also the Recorder of the City and the Stipendiary Magistrate. There was nothing like friends in court. (Laughter.)

The object of the Chamber of Commerce was to further and improve the trade of the city. Speaking strictly for himself he hoped that object would not be pushed too far.

Alderman W. Collingson (Deputy Lord Mayor of Manchester), responding to the toast, said Manchester was the centre of the greatest industrial area in the whole world.

Mr. H. E. Pardoe (Vice-President of the Manchester Chamber of Commerce), also responding to the toast, said the Chamber was concerned with trade but more especially with the export trade. Looking back, he said, 1952 had been a difficult year but a year of great achievement. Looking ahead to 1953, the position was much sounder, but he preferred not to say just how far it was going to develop.

Sir Noel Barre Goldie (Recorder of Manchester) proposed the toast to "The Society of Incorporated Accountants." He said Manchester today stood as high as it ever did, and that was due in no small degree to their profession. Members of the profession could always say "This won't do." They could also say to an adventurous lad getting near the knuckle: "Laddie stop before you get too far." The legal profession in



Manchester owed a great deal to the Society.

Mr. C. Percy Barrowcliff (President of the Society of Incorporated Accountants), in response, said that industry was being drained of capital urgently required to keep it thoroughly efficient and competitive. This was a matter of grave concern in the battle for world markets, upon which we were so dependent. Existing and potential capital was being used up in meeting demands for taxation because the standard of life was higher than the means available to support it.

The position was being made more critical by adherence to the old convention of basing depreciation on historical or original cost in determining industrial profits. Today replacement of an asset might cost three or four times the original cost, and it appeared essential that to ensure the continuity of the business, depreciation would have to be based on that replacement cost. Unless this was done, the profits would appear to be overstated and to include part of the undertaking's capital. Consequently taxation would be calculated partly on capital in such cases, and with taxation at the present penal level, the deterioration in the capital position would be accelerated.

He submitted that this nation was not facing the real issue of the moment—the absolute necessity of creating capital resources through savings. A survey had estimated that during the four years 1948 to 1951 savings amounted to £3,800 million out of a total national income of about £42,000 million, representing a mere nine per cent. Even the bulk of these meagre savings was appropriated by the Government, either for its own social capital expenditure or for that of local authorities and public Boards. Only a comparatively small part was left to industry, upon which the prosperity of the country depended.

Government expenditure would have to be cut down so that adequate taxation relief could be given and savings could be available to finance the expansion and modernisation of productive equipment. Much depended upon the Chancellor of the Exchequer in the forthcoming Budget.

Mr. Victor A. Bell (Vice-President of the Incorporated Accountants' Society of Manchester and District), proposed the toast of "Our Guests." He said they were all oiling the wheels of industry.

Mr. Peter Gaddum, chairman of the Silk and Rayon Users' Association, responded.

#### COUNCIL MEETING

*Present:* Mr. C. PERCY BARROWCLIFF (President), Mr. Bertram Nelson (Vice-President), Sir Frederick Alban, Mr. A.

Stuart Allen, Mr. F. V. Arnold, Mr. R. Wilson Bartlett, Mr. C. V. Best, Professor F. Sewell Bray, Mr. Andrew Brodie, Mr. Henry Brown, Mr. M. J. Faulks, Mr. W. H. Fox, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. C. A. C. Hewson, Mr. Hugh O. Johnson, Sir Thomas Keens, Mr. W. H. Marsden, Mr. A. E. Middleton, Mr. T. H. Nicholson, Mr. F. A. Prior, Miss P. E. M. Ridgway, Mr. P. G. S. Ritchie, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. Percy Toothill and Mr. Richard A. Witty, with the Secretary and the Deputy and Assistant Secretaries.

#### COUNCIL

The Council congratulated Mr. A. E. Middleton upon his nomination as Chairman of the London County Council during Coronation year.

#### THE LATE MR. JAMES PATERSON

The President spoke of the work of Mr. James Paterson, F.S.A.A., Glasgow, who died on January 23. Members of the Council stood in silence in tribute to the memory of Mr. Paterson before adopting the following resolution:

That the Council of the Society of Incorporated Accountants and Auditors records its deep regret at the death of Mr. James Paterson, Fellow, Glasgow, who had been a member of the Council and Honorary Secretary of the Scottish Branch of the Society since 1906, and its sense of the great loss the Society has sustained by his death.

An expression of the Society's deep sympathy was sent to the family of the late Mr. Paterson.

#### REPORT AND ACCOUNTS

The report of the Council and the accounts of the Society for the year ended December 31, 1952, were approved.

#### HONORARY MEMBERSHIP

The following resolution was unanimously adopted:

That Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., and Mr. G. O. May, F.C.A., C.P.A., be elected Honorary Members of the Society in recognition of their outstanding contributions to International Congresses on Accounting and to the profession in general.

#### REPORTS OF COMMITTEES

The Council received the minutes of recent meetings of the Finance and General Purposes, Disciplinary, Company Law, Development, and Applications Committees, of the ACCOUNTANCY Editorial Conference, and of the Committees of the South African Branches.

#### LORD MAYOR OF LONDON'S NATIONAL FLOOD AND TEMPEST DISTRESS FUND

The Council approved the payment of a donation of 100 guineas to the Lord Mayor

of London's National Flood and Tempest Distress Fund.

#### THE LATE MR. JOSEPH SHAW GREEN

The Council received a letter from Mr. du Pré, Editor of *The Accountant*, expressing his gratitude for the Council's gift of a portrait of his grandfather, Mr. Joseph Shaw Green, the first President of the Society in 1886.

#### SIR JAMES MARTIN MEMORIAL EXHIBITION

It was resolved that the Sir James Martin Memorial Exhibition for the November, 1952, Intermediate Examination be awarded to Peter Leverton Martin, Nottingham.

#### MEMBERSHIP

Applications for admission to membership of the Society for promotion to Fellowship, and for registration as members in retirement were approved, subject to payment of entrance fees and subscriptions as appropriate in each case.

#### RESEARCH COMMITTEE

Mr. T. W. South, B.A., was appointed Secretary of the Research Committee.

#### DINNER TO THE LORD MAYOR OF LONDON

It was reported that the Lord Mayor of London had accepted an invitation to dine at Incorporated Accountants' Hall on July 20.

#### RESIGNATIONS

It was reported that the resignations of the following members had been accepted: BISHOP, Sidney Charles (Associate), Norwich; GEORGE, Henry Bernard (Associate), Pretoria; CARLESS, Stanley James (Associate), Johannesburg; PAXTON, Thomas James (Fellow), Pretoria; SILKE, Aubrey Samuel (Associate), Cape Town; WATTS, Vere (Associate), Manchester; WHITELEY, Percival Edgar Thomas (Fellow), Grahams-town.

#### DEATHS

The Council received with regret a report of the death of each of the following members: BENNETT, John (Fellow), Nuneaton; BRITTAIN, Joseph Surtees (Fellow), London; CLARIDGE, Charles Edward (Fellow), Bradford; DENNEY, George Rawling (Associate), Bishop Auckland; ELVEN, William Warnes (Fellow), Norwich; GRIFFITH, Frederick (Fellow), Kendal; HEYWOOD, Harold Senior (Associate), Sutton, Surrey; PATERSON, James (Fellow), Greenock; PRICE, Harry (Associate), Southsea; FRIDIE, George Roby (Fellow), London; SIDFORD NEALE, Reginald Guy (Fellow), Chorley Wood; SPEDDING, John (Associate), Manchester; TOVELL, Walter George (Associate), Bournemouth; WHIPP, Robert Paley (Associate), Manchester.



## DISCIPLINARY COMMITTEE

AT A MEETING ON MARCH 16, THE Disciplinary Committee considered a complaint that Richard Arthur Black, Associate, of 109, Kingsway, London, W.C.2, who had been prosecuted and fined five guineas for defaults under Section 342 of the Companies Act, 1948, had failed to reply to four letters from the Secretary asking for an explanation of the circumstances which led to this prosecution and had also failed to acknowledge further letters summoning him to appear before the Committee on January 15 and March 16. Mr. Black did not appear at either meeting.

The Committee found that the complaint had been proved within the terms of Article 32 and accordingly resolved that Richard Arthur Black be suspended from the exercise of all rights and privileges of a member for a period of two years.

## EVENTS OF THE MONTH

May 12-15.—Society of Incorporated Accountants: Examinations.

May 19.—London: Society of Incorporated Accountants annual general meeting, followed by Incorporated Accountants' Benevolent Fund annual meeting. Incorporated Accountants' Hall, at 2.30 p.m.

May 28.—London: Students' Society annual general meeting. Incorporated Accountants' Hall, at 6 p.m.

## REGISTRATION OF BYE-LAW CANDIDATES

AS FROM JULY 1, 1953, A CANDIDATE WHO decides to seek admission to the examinations under Bye-law 10 must make application to the Society for registration as a Bye-law candidate. An application for registration will not be accepted until the candidate has reached the age of 17½ years and has passed or obtained exemption from the Preliminary Examination.

Registration by itself will not give an automatic right of admission to the examinations, and a Bye-law candidate will not be permitted to sit for the examinations until he has completed the following periods of continuous and approved practical training since the date of registration:

Intermediate ... ..	3 years
Final: Part I ... ..	5 years
Part II or Parts I and II together	6 years

In the case of graduates of any of the recognised universities in the United Kingdom of Great Britain and Northern Ireland, and in Eire, the Council may, at its discretion,

reduce the training periods specified above by not more than two years.

An application for registration as a Bye-law candidate must be accompanied by a certificate of service from the employer stating the duration of the applicant's service and the nature of his duties.

Subsequent applications to sit for the Intermediate and Final Examinations must also be accompanied by certificates of service from the employer which should include the duration of service, nature of experience to date, and confirmation that the application has the employer's support.

A Bye-law candidate will be required to notify the Society of every change in employment during his qualifying service. Continuance of registration will be dependent upon the Council being satisfied that the candidate is receiving training in accordance with the requirements of the Society, and any candidate may apply to the Society in order to assure himself in advance that any proposed change in employment will not affect registration.

Accountancy clerks who wish to proceed to the Society's Examinations but who have not as yet either sat for or made application for exemption from the Preliminary Examination are advised to do so before July 1, 1953. Failure to do so will nullify any previous service in the profession for the purpose of calculating the six years' service required under the Bye-laws.

## DISTRICT SOCIETIES & BRANCHES

### SCOTTISH BRANCH

AT A MEETING OF THE COUNCIL OF THE Scottish Branch held on March 25, it was unanimously resolved to appoint Mr. John D. Battersby, A.S.A.A., of 104, West Regent Street, Glasgow, as Secretary in succession to the late Mr. James Paterson, F.S.A.A. Mr. J. Hawthorne Paterson, F.S.A.A., who held the appointment of Assistant Secretary, had intimated that owing to pressure of other business he was unable to accept the senior appointment.

### EAST ANGLIA

MR. W. P. GILL, F.S.A.A., WAS ELECTED President of the District Society for the remainder of the year 1952-53, in consequence of the death of Mr. W. W. Elven. He will hold office until the annual general meeting in June.

### LONDON STUDENTS' SOCIETY

#### CRICKET TEAM

ARRANGEMENTS HAVE BEEN MADE TO HOLD at least three mid-week cricket matches

this coming season, and members who wish to play are requested to forward their names to the Secretary.

### WEST OF ENGLAND

A MEETING OF MEMBERS AND STUDENTS in the Taunton and Bridgwater area was held at Taunton on March 24, with Mr. R. F. Emmerson (President) in the chair.

There was discussion on various matters of interest to the profession, and the following sub-committee was formed: Mr. W. L. Abbott, Mr. T. Bretherton, Mr. R. J. Hulbert, Mr. E. R. Siddle, Mr. S. T. H. Tarr, and Mr. H. A. Binding (student).

### IRISH BRANCH

THE ANNUAL GOLF OUTING OF THE IRISH Branch was held at Baltray, Co. Louth, on April 18 and 19, 1953. The trophy competed for by teams from the North and South of Ireland was won on this occasion by the Northern team by a very narrow margin.

In the Trophy Competition, individual prizes were won by Mr. H. F. Bell of Coleraine and Mr. H. V. Lennox of Dublin. In a Stableford Competition, prizes were shared by Mr. S. A. Martin and Mr. C. D. Shannon of Dublin.

During the weekend, Mr. H. V. Lennox did a "hole in one."

### PERSONAL NOTES

Messrs. Whitmarsh, Kitchen & Co., Incorporated Accountants, Helston, Cornwall, have admitted into partnership Mr. K. A. J. Brown, A.S.A.A.

Mr. F. C. Wall, A.S.A.A., Bridgnorth, has taken into partnership Mr. A. C. Griffiths, A.S.A.A., who has been associated with him for a number of years. The style of the firm will be Wall & Co., Incorporated Accountants.

Mr. J. L. Bayliffe, A.S.A.A., has acquired the practice of Davidson & Co., formerly carried on by Mr. R. A. W. Davidson, C.A. He is continuing it under the style of Davidson & Co., Incorporated Accountants, at 5A Hammet Street, Taunton.

Messrs. Kemp, Charteris & Co., Chartered Accountants, London, E.C.4, announce that they have opened a branch office at Barclays Bank Building, Port Louis, Mauritius, in the charge of a resident partner, Mr. P. D. Cooper, A.C.A., from their London office.

Mr. Norris M. Goddard, A.S.A.A., has commenced public practice under the style of Goddard, Wells & Co., Incorporated Accountants, at 24, Welbeck Way, London, W.1.

Messrs. Cassleton Elliott & Co. (Nigeria) announce that Mr. D. A. Easton, Incorporated Accountant, has been admitted to partnership in respect of the Lagos practice. The name of the firm is unchanged.

Messrs. Gondalia & Mandviwalla, Chartered Accountants (India) and Incorporated Accountants, have admitted as a partner Mr. S. M. Bhatia, B.COM., A.S.A.A., A.C.A. (India).

Mr. A. C. Ralph, A.S.A.A., has been appointed Group Accountant to A.V.P. Industries, Ltd., Edmonton, London, N.18.

Messrs. Beevers & Adgie, Chartered Accountants, Leeds, and Messrs. Greenwood, Anderson & Co., Chartered Accountants, Heckmondwike and Cleckheaton, announce changes in their respective firms. Mr. Harry Anderson, A.C.A., has withdrawn from Messrs. Greenwood, Anderson & Co. and joined Messrs. Beevers & Adgie, who have taken over the Cleckheaton office, of which Mr. Anderson has been in charge. Mr. H. Greenwood, A.C.A. and Mr. G. Barton, A.C.A. (the remaining partners of Greenwood, Anderson & Co.), are practising from National Provincial Bank Chambers, Heckmondwike, as Messrs. Greenwood, Barton & Co.

Mr. W. G. Smith, A.S.A.A., Secretary of the Solent Carpet Co., Ltd., Southampton, has been elected a director of the company.

Mr. L. Fialko, Incorporated Accountant, London, S.W.1, announces that Mr. Martin W. Burns, Chartered Accountant, has joined him as a partner. The name of the firm is Fialko, Burns & Co.

Messrs. Middlemiss, Sheasby & Co., London, W.C.2, announce that Mr. D. F. Middlemiss, F.C.A., F.S.A.A., has retired from the practice, but remains available for consultation. The remaining partner, Mr. H. Basil Sheasby, M.B.E., F.C.A., F.S.A.A., has been joined in partnership by Mr. D. Ellam, A.C.A., A.A.C.C.A., who has been with the firm for a number of years. The firm name is unchanged.

Messrs. T. C. Squance & Sons, Chartered Accountants, Sunderland, announce that Mr. D. T. S. Rutter, A.S.A.A., has been admitted a partner in their associated firm of T. C. Squance & Sons and is the resident partner at Bishop Auckland.

Mr. F. F. Fish, D.F.M., A.S.A.A., has commenced practice at 30 Mount Ash Road, Sydenham, London, S.E.26, under the style of F. F. Fish & Co., Incorporated Accountants.

Mr. P. J. Loughrey, A.S.A.A., A.A.C.C.A., has been elected President of the Dublin Chamber of Commerce.

Messrs. Wm. H. Jack & Co., Incorporated Accountants, London, W.C.2, announce that they have admitted into partnership Mr. Leonard A. Clark, A.S.A.A., who has been associated with the firm for a number of years.

Messrs. Dyke & Ruscoe, Incorporated Accountants, Shrewsbury, have taken into partnership Mr. W. H. Davies, A.S.A.A., A.C.I.S., who has been a member of their staff for some years. The name of the firm remains unchanged.

Mr. C. W. Jenkins, A.S.A.A., has been appointed Accountant to McLintock & Sons, Ltd., Barnsley.

Messrs. Ernest Weston & Co., Sheffield, have admitted to partnership Mr. K. B. Clark, A.S.A.A.

Mr. L. W. Furneaux, A.S.A.A., has taken Mr. P. J. Gibson, A.S.A.A., into partnership in the firm of Leslie Furneaux & Co., Incorporated Accountants, London, S.W.16.

Mr. Walter Bentham, Incorporated Accountant, Bradford, announces that he has taken into partnership his son, Mr. Eric Bentham, Incorporated Accountant, and has acquired the practice of Mr. W. V. Jenkinson, Chartered Accountant. Mr. Jenkinson has also joined them as a partner to deal with clients of his former practice. The style of the new firm is Bentham, Jenkinson & Co.

## REMOVALS

Mr. B. M. Heron, F.C.A., A.S.A.A., practising as B. M. Heron & Co., informs us that the practice is now being carried on from 391, Lordship Lane, East Dulwich, London, S.E.22.

Messrs. Heal & Co., Incorporated Accountants, have removed to 84, The Broadway, Chesham, Bucks.

Messrs. Rickard & Co., Incorporated Accountants, announce a change of address to 20, Southampton Place, London, W.C.1.

Mr. S. R. Mandre, M.A., F.S.A.A., F.C.A. (India) announces a change of address to Third Cross Road, 97, Gandhi Nagar, Bangalore.

Messrs. S. J. G. Southon & Co., Incorporated Accountants, state that their address is now 6, The Parade, Exmouth.

Mr. F. C. Utting, Incorporated Accountant, has removed to Halifax House, Bank Plain, Norwich.

Mr. Peter Hopkinson, Incorporated Accountant, has moved his office to 29, Hill Street, St. Helier, Jersey, C.I.

Messrs. T. N. Steel & Co., Incorporated Accountants, advise us that their address is now 7, St. George's Square, Huddersfield.

Mr. Roland J. L. Ball, Incorporated Accountant, has removed his office to 2, Blenheim Terrace, Woodhouse Lane, Leeds, 2.

Messrs. J. H. Johnston & Co., Incorporated Accountants, are now at 32 Rue de Caumartin, Paris, 9c.

## OBITUARY

### HERMAN LUDWIG BERLAK

We regret to record the death on May 12, of Dr. H. L. Berlak, F.S.A.A., of Messrs. H. L. Berlak & Co., Incorporated Accountants, London, E.C.4, and Hendon.

Dr. Berlak became a member of the Society of Incorporated Accountants in 1945, when he was with Messrs. J. Dix Lewis, Caesar & Co., London. He was for some time an active member of the Incorporated Accountants' Research Committee, working particularly on international comparisons of local taxation. He was also a regular supporter of the activities of the Incorporated Accountants' London and District Society.

### MONTAGUE MOUSTARDIER

With regret we record the death on March 3 of Mr. M. Moustardier, F.S.A.A., F.C.I.S., at the age of 72.

Mr. Moustardier had been in practice as an Incorporated Accountant in London since his admission to membership of the Society 50 years ago. He was one of the founders of the Accountant Lecturers' Association.

From 1931 to 1934 he was a member of the London County Council. He had held a number of appointments as chairman or governor of charitable institutions, including the National Temperance Hospital, the Queen's Home for Nurses, the British Home for Deaf and Dumb Women, and the East London School for Blind Children. At the time of his death he was a governor of several schools in Hackney, and also patron of the Hackney South Conservative Association, of which he was formerly treasurer.

The funeral was attended by members of the Kingsway and other Masonic Lodges.

The practice of Moustardiers at Clapton is now being carried on by Mr. D. H. Mason, Incorporated Accountant, who served his articles with Mr. Moustardier.